Rent Stabilized Housing in New York City
A Summary of Rent Guidelines Board Research, 1991

September, 1991

Table of Contents

A Letter from the Chairman

For over twenty years the rent stabilization system has played a significant role in shaping the fortunes of the rental housing industry in New York City along with the welfare of the tenant population it serves. While the question of how well the system has worked is too complex to address here, it may be worthwhile at this time to consider the antecedent question of how to best evaluate the system.

With the rise and decline of the economy in the 1980's we are reminded that open markets have tremendous power - power to create and expand the availability of goods and services and to contract or even collapse leaving in their wake disrupted lives, failed businesses and public service cutbacks. As a nation we are generally willing to weather the occasional negative effects of these cycles in the interest of long term growth and prosperity. In some cases, however, shifts in unregulated market forces carry unacceptable consequences. A booming local real estate market without rent and eviction controls or limitations on co-op conversions has the power to fundamentally alter the face of neighborhoods and to deeply disrupt organic communities. The strength of these communities may never again be fully re-established. While market induced change is typically a constructive process, the logic of housing markets can often lead to destructive social cycles, rootlessness and insecurity. These effects remain undetected by most economic indicators which may portray housing as a simple commodity and neighborhoods as an irrelevant sentimentality. Yet, these issues are often woven into the testimony and letters the Rent Guidelines Board receives each year and they are a vital part of the universe of concerns which shape the guideline setting process. In some respects these concerns are neutral. A stable and secure neighborhood over the long term is as much in the interest of property owners as it is to tenants. It is not uncommon to hear from owners who are more concerned about retaining stable long term tenants at fair rents rather than realizing the highest short term return market forces might allow.

The annual investigation into conditions within the residential housing industry conducted by the Rent Guidelines Board is a complex process and the thousands of facts, figures and opinions reviewed do not add up to a simple conclusion. Indeed, the data and testimony given may add up to several reasonable but conflicting conclusions - conclusions which are often as diverse as those who review the data. Forging a majority position from these diverse viewpoints provides a good example of the democratic process at work. One way to measure the integrity of the process is to consider the breadth and scope of the public dialogue which precedes the final vote. An additional way is to consider the experience and commitment of those casting the votes. A further way is to consider the consequences of these decisions on the overall welfare of the City - its neighborhoods, the investment community, tenant households, the housing stock, taxpayers etc.

Before proceeding with any evaluation of the process it is also important to recognize

the legal parameters which limit the Board's discretion in both the matters it reviews and the rent levels it sets. The City Council and the State legislature have established several specific economic and cost related factors which the Board is obligated to review each year and the federal Constitution commands that the Board respect the property rights of owners by granting reasonable rent adjustments. Within these limits the Board is obligated to think seriously and expansively about housing conditions.

Whether the rent stabilization system has been a public policy success will be debated for years to come. Two points which rarely generate public discussion might be worth adding to this debate. First, any evaluation of rent regulation should factor in the stability it arguably has provided for rental markets over a two decade period marked by volatile economic fluctuations. It is not clear that open ended business cycles in the residential housing industry offer much in the way of security to long term owner/investors as well as to tenants. A regulatory system which mitigates the impact of these cycles in residential markets may, therefore, be mutually beneficial. Second, the public value of conducting periodic reviews of housing conditions along with the accountability created by making the landlord/tenant relationship a quasi-public affair should weigh into the public policy considerations. It seems that something may be lost if rent increases and evictions are once again relegated to "the natural order of things". Moreover, it is vital that the availability, affordability and habitability of housing in the City of New York remain a prominent part of our ongoing democratic dialogue.

This volume attests to some of the Board's efforts to meet its investigatory obligations under the law and illustrates where we have gone beyond these minimum requirements. The Board's talented research staff ably led by Director of Research, Doug Hillstrom, deserves special credit for this publication. Tim Collins, Executive Director/Counsel, again did an outstanding job ensuring that all of the pieces came together at the right time. None of this fine work could have been constructively utilized, however, without the hard work and critical analysis provided by the members of the Rent Guidelines Board. I have felt it an honor and a privilege to work with each of them.

Aston L. Glaves
September 5, 1991

Acknowledgements

This volume summarizes all the major research projects - including the 1991 Price Index of Operating Costs (PIOC) - produced by the staff of the Rent Guidelines Board during the 1991 guideline "season". This is the first year that the staff has produced the PIOC study in addition to its other research projects. Annie Georges and Ashley How of the RGB research team were instrumental to the success of many of these projects. They were a pleasure to work with throughout many long days and weekends of number crunching which preceded the final vote on the guidelines.

The staff is especially grateful for the professional assistance and technical support from Speedwell, Inc. Anthony Blackburn assembled the Speedwell team and provided critical assistance in organizing the project. Jim Hudson prepared the tax and water & sewer relatives, and worked with the RGB staff on various other aspects of the PIOC including data verification and the preparation of the myriad spreadsheets needed for the index. Anne DeGregorio's long experience as director of field operations was extremely helpful in organizing this year's efforts. Finally, Jim Quinn provided valuable help as well as data from last year's PIOC.

Special mention should also be made of the dedicated efforts of our survey crew, including the hard work of Pat Stone, Survey Manager. Our temporary survey personnel included: Andrew McLaughlin, (Survey Supervisor), Terry Rhodes, Duncan Gray, Gene Allen, Jon E. Edwards, Rohan A. Reid, Alex Vuksic, Yishai Shimoni, Steven O'Brien, Michael Brown, Carlos Cruz, Sylvester Williams, Paul Taylor, Michael H. Bott, Parnell Allen and Earl Stryker.

The RGB also benefitted from the assistance of several city and state agencies. The Department of Finance (DOF) and the Department of City Planning helped to prepare files used in computing the PIOC tax relative. Personnel from the DOF and the Department of Housing Preservation & Development (HPD) provided essential sources of data. We gratefully acknowledge the continuing support from both Commissioner Felice Michetti of HPD and Commissioner Carol O'Cleireacain of DOF. Moon Wha Lee, Assistant Deputy Commissioner of HPD's Office of Policy Analysis & Research provided needed assistance in the preparation of the owner survey and tax computations. Mr. Lee's unit also provided vital computer data tapes for this year's hotel studies. The Department of Housing and Community Renewal (DHCR) allowed the RGB to use their rent registration information for the owner survey and tax computations in addition to responding to several special data requests. Elliot G. Sander is to be credited with maintaining a productive and professional relationship with the RGB throughout his continuing service as Deputy Commissioner in charge of DHCR's Office of Rent Administration.

We would also like to extend our thanks to Martha Stark and Julie Walpert of the DOF for their assistance on various tax issues and information for this year's apartment and hotel

I&E studies. While no major changes in sampling methodology were made this year, the staff was able to incorporate several non-sampling changes in an effort to improve the reliability of the I&E data.

We are also indebted to other governmental agencies such as the Real Estate Financing Bureau of the New York State Attorney General's Office, the New York State Public Service Commission, the New York City Department of Telecommunications and Energy, and the New York City Water Board for providing information and relevant data for a number of this year's research projects.

Lastly, two disclaimers must be made regarding this report. First, while this volume includes this year's staff research, the Board was provided with a wide variety of additional information including written submissions and oral testimony from building owners, tenants, housing scholars, public officials, and other interested parties. Second, although this report does include a summary of the Board's guidelines for 1991-92, it is not intended as an explanation of those guidelines. Those who are interested in this issue should consult the explanatory statements which were issued in conjunction with this year's rent orders. The orders and explanatory statements can be obtained by contacting the staff office at (212)349-2262.

Timothy Collins
Executive Director

Douglas Hillstrom
Director of Research

Owner Income and Expense

1991 Price Index of Operating Costs for Rent Stabilized Apartments

Summary

The annual Price Index of Operating Costs (PIOC) measures the change in price of goods and services operators of typical rental buildings are likely to purchase in the preceding April '90 to April '91 period. The overall increase in the 1991 PIOC was 5.3%. With the exception of the taxes, fees, and permits component, which increased by 9.8%, increases in all of the other components were at or below the rate of inflation for the April-to-April period. It seems that the recession has made it difficult for contractors and vendors to raise prices.

This year's increase in taxes was the third large increase in as many years. Following the trend of recent years, most of the increase in taxes was due to higher assessments. It appears that the rate of increase in billable assessments is slowing, however.

Labor costs were up. This increase includes the wage increase which was reached after settlement of the 32B-32J strike. Wage provisions of the 32B-32J contract account for more than half of the PIOC's labor component.

Fuel oil costs increased moderately this year. Although oil prices were higher than last year throughout most of the heating season, the weather was considerably warmer. As a result, the "cost-weighted" increase was only 4.6%.

After several years of double-digit figures, including a 45% increase last year, water & sewer fees rose "only" 8%. This relatively small increase, coupled with moderate declines in electricity and natural gas costs, held the utility component nearly constant.

Contractor Services and Administrative Costs are largely "labor-based" and depend to a great extent on the strength of the local economy. Not surprisingly, the increases in these two components were the smallest in recent years.

For the fourth consecutive year, increases in insurance costs were less than the rate of inflation. Increases in the Parts & Supplies and Replacement Cost components, which have been remarkably consistent (and low) over the past eight years, continued to follow the same pattern.

Change in the Components of the Price Index of Operating Costs, April, 1990 to April, 1991

Taxes, Fees, and Permits	9.8%
Labor Costs	5.2%
Fuel Costs	4.6%
Utilities Costs	1.2%
Contractor Services	5.5%
Administrative Costs	3.0%
Insurance Costs	4.4%
Parts & Supplies	3.5%
Replacement Costs	1.3%
Overall	**5.3%**

PIOC Elements

Owner Survey

The owner survey is used to gather information on management fees, insurance, and non-union labor. Survey forms, accompanied by a letter describing the purpose of the PIOC, are mailed to the owner or managing agent. If the survey form is returned, the owner/manager is contacted by an interviewer to verify the information and to obtain additional information if necessary.

The largest single improvement made in the PIOC this year was to upgrade the owner survey data base and to increase the size of the owner mailing. The past several PIOCs used a list of owners registered with the New York State Division of Housing and Community Renewal (DHCR) in 1986 as the source for the owner survey mailing. The phone numbers and addresses of these owners were obtained by matching the DHCR list with the multiple dwelling registration file maintained by the NYC Department of Housing Preservation and Development (HPD). The resulting sample frame was less than ideal - for several reasons:

1. As a listing of owners who registered in a single year it inevitably excluded those who failed to register in 1986. Information obtained by the Rent Guidelines Board (RGB) indicates that many owners do not register every year.

2. The inaccuracies of the DHCR list were compounded by matching with HPD's list. For instance, if the information on the DHCR list differed slightly from the HPD list, no match would occur. In addition, owner registration data on the HPD list is sometimes outdated since building registration is required only once every 3 years.

3. The 1986 list was five years old and thus did not account for transfers of ownership over the past several years.

The first step in assembling the new owner survey sample frame was to obtain an up-to-date registration file from DHCR. The RGB requested a file containing all owners who registered at least once during the period 1984 - 1989. In order to make this information useful for the owner survey, records from each year were concatenated to produce a single record for each building with the most recent manager and owner information. The resulting file contained approximately 51,000 buildings.

A stratified sampling scheme was used to choose a total of 6000 addresses for the owner mailing. The number of buildings chosen in each borough was proportional to the share of all buildings in that borough. In addition to the "new" sample of 6000 buildings, all of the owners who responded to last year's survey were recontacted this year. Including these "old" owners expanded the total sample size to 6400. Last year the mailing consisted of 4500 pieces.

Over 500 owners returned the mail survey, and of these, 437 answered one or more of the survey questions. The surveys were reviewed and calls were made to verify the price quotations. The number of verified price quotes in 1990 and 1991 for the owner survey

is shown in appendix B of this report.

Fuel Oil Vendor Survey

Every year, it seems, the "fuel question" arises. Last year only three price quotes were obtained for #6 fuel oil. The year before the number of price quotes was four. The small number of quotes for #6 oil has raised a number of questions: Is it true that very few buildings now use #6 fuel oil? Are there really so few vendors of #6 oil, and if so, do these vendors exercise any type of uncompetitive pricing power? Should the weights of the PIOC be adjusted to reflect the new pattern of fuel use?

This year several questions on fuel use were added to the owners' survey in an effort to answer these questions:

1. Is your building oil heated?
2. What type of heating oil do you use?
3. How many gallons of oil do you use per year for your building?
4. Who do you buy your oil from?

A total of 111 building managers/owners answered some or all of these questions. The distribution of buildings, based on fuel type used, was as follows: #2 - 58%, #4 - 11%, #6 - 31%. The high percentage of the BUILDINGS using #2 fuel oil was not unexpected. Small buildings tend to use this grade of oil and represent a large proportion of all stabilized buildings. In addition, it is likely that small building owners are more likely to answer our survey than the owners of large buildings.

To weight the data from our survey to make it representative of all stabilized UNITS, the amount of fuel used in each building was multiplied by the average fuel price for the year. The resulting distribution of expenditures on fuel was: #2 - 29%, #4 - 9%, #6 - 62%. The weight for #6 fuel oil in this year's PIOC was 53%. It appears that a majority of stabilized units continue to be heated by #6 fuel oil.

And what about the possibility that few oil companies sell #6 fuel oil? This year's survey obtained twelve price quotes for #6 oil. In addition, vendors of #6 fuel oil were identified through the fuel questions in the owner survey and by calling fuel oil companies to inquire what grades they carry. By combining all of these sources of information the survey team identified 17 companies which sell #6 fuel oil. While not a huge number, it seems that there is still a sufficient number of companies in the market for #6 fuel oil to assure competition.

Based on these results there does not appear to be any need to revise the PIOC fuel weights although the RGB may wish to consider a special survey to refine the existing weights.

In prior years it was noted that a considerable degree of consolidation has occurred in the fuel oil industry. Many of the small firms remain, and have retained their names, but they are now owned or controlled by larger organizations. Staff made a special effort this year to identify the ownership of all fuel oil companies.

This information on ownership proved to be extremely useful. Since the PIOC is a survey of independent vendors it is important that no double counting of fuel oil companies with the same pricing structure occur. This is impossible without detailed data on ownership. An added bonus of obtaining this information is that by defining the "universe" of fuel oil vendors it is possible to improve the reliability of our estimate of the standard error.

Tax Computations

The computation of the taxes, fees and permits component and the water & sewer fees component has been based on the 1986 DHCR list of stabilized buildings for the past several years. This year we used an updated list of stabilized properties which included buildings registering in any year between 1984 and 1989.

The advantages of using the updated DHCR list for the owner survey are described in detail in the "owner survey" section of this report. In the case of the tax computations, one major plus of using the newer list is completeness. While the 1986 list included approximately 30,000 properties (before buildings with in-rem actions were excluded), this year's had 39,000. In short, the current data probably includes a substantially higher percentage of all rent stabilized buildings.

After the DHCR list was obtained, it was sent to the Department of City Planning in order to match the addresses with tax block and lot codes. The file with the tax block and lot codes was then sent to the Department of Finance for information on assessments, abatements and exemptions, open balances, and water & sewer charges. Since this year's list was new, it was necessary to obtain information for both FY90 and FY91. The data was processed using the RGB's link to the city's computer center.

Apart from using a more comprehensive list of rent stabilized buildings, we also made an effort this year to improve the procedure for excluding buildings with in-rem actions. The "notes" in the Finance Department's Open Balance Register were carefully examined and buildings were excluded only if it was reasonably clear that an in-rem action was still pending.

Vendor Survey

The Vendor Survey is used to gather price quotes for contractor services, administrative costs, parts & supplies, and replacement costs. As in prior years, an effort was made to update the vendor database by adding new vendors and deleting those who no longer carry the products in question. Vendor quotes were obtained in person and over the telephone. The method used depended on the particular product or service being priced (e.g. all painters were contacted by telephone due to the difficulty of meeting with them during business hours).

The procedures used for gathering price quotes and the number of quotes gathered were largely unchanged from prior years. For a detailed description of the items priced and the number of price quotations obtained, refer to appendix B.

Other Items

In addition to the items previously discussed, a number of other pieces of information are needed to complete the PIOC. They are:

- Union contract and benefit information
- Social security rates
- Unemployment insurance rates
- Heating degree days
- Utility rate schedules

These items are used in computing some of the labor components, changes in utility costs for electricity, gas, steam, and telephone, and the cost-weighted change in fuel prices.

Changes in PIOC Components

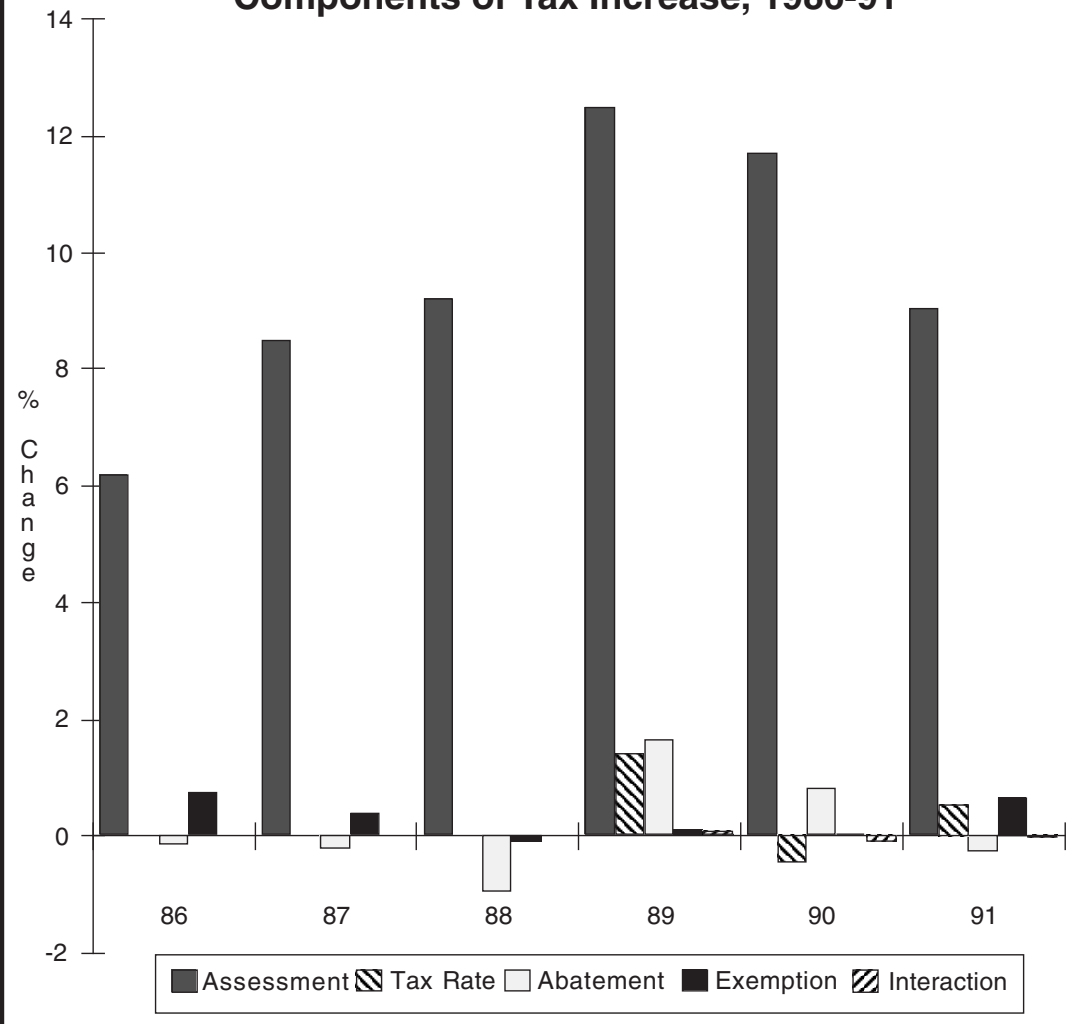
Taxes, Fees and Permits **+9.8%**

The taxes, fees and permits component is based on real estate taxes (Fees and Permits are considered in a separate submission to the Board). The change in taxes is estimated by comparing the aggregate taxes levied on rent stabilized apart-ment houses in 1990 and 1991 (for additional detail on how the tax computation differs from last year see the earlier section on PIOC elements). The tax data was obtained from the Department of Finance.

Taxes levied on rent stabilized apartments increased by 9.8% in the past year. It was the third straight large increase and the seventh consecutive year in which the rate of increase in this component exceeded the overall PIOC increase.

The chart on this page disaggregates the increase in real estate taxes due to changes in billable assessments, the tax rate, tax exemptions, and abatements. Most of the overall increase can be attributed to the increase in assessments. This is the third year in a row in which the rate of increase in assessments has fallen (i.e. 12.5% in 1989, 11.7% in 1990, 9.1% in 1991). It seems very likely that the rate of increase in assessments will fall further next year since the Finance Dept has announced that it expects billable

Editor's Note: The actual increase in billable assessments in FY'92, which was finalized by the Finance Department after the completion of this report, was 5.8%.



Source: *Price Index of Operating Costs*, 1986 - 1991.

Note: Overall change in tax component by year: 1986 (6.8%), 1987 (8.7%), 1988 (8.1%), 1989 (15.8%), 1990 (12.0%), and 1991 (9.8%).

assessments to increase by 8.4%.

Labor Costs **+5.2%**

The labor costs component is based on several measures of labor costs, including union contracts (wages and benefits), non-union wage increases measured by the owner survey, and changes in social security and unemployment insurance.

The union labor components include specs 201 (Bronx union employees), 202 (Union Supers, 32B-32J), 203 (Handymen & Others, 32B-32J) and 207 (Health & Welfare Benefits, Bronx and 32B-32J). Together, these components represent approximately two-thirds of the labor component and over 10% of the entire price index. Fortunately, 32B-32J reached a settlement with the building owners group on May 2 which allowed us to calculate the PIOC.

Wage increases for both union and non-union employees were quite moderate this year, ranging from 3.5% (spec 203) to 5.1% (spec 201).* However, health and welfare benefits continued to rise rapidly - up 14% this year. The combination of rapidly rising benefits and moderate increases in wages resulted in an increase in the labor component of 5.2%.

This increase is quite typical of changes in the labor component in recent years. Between 1987 and 1991 labor cost increases have been in an extremely narrow range, ranging from 5.1% to 5.7%.

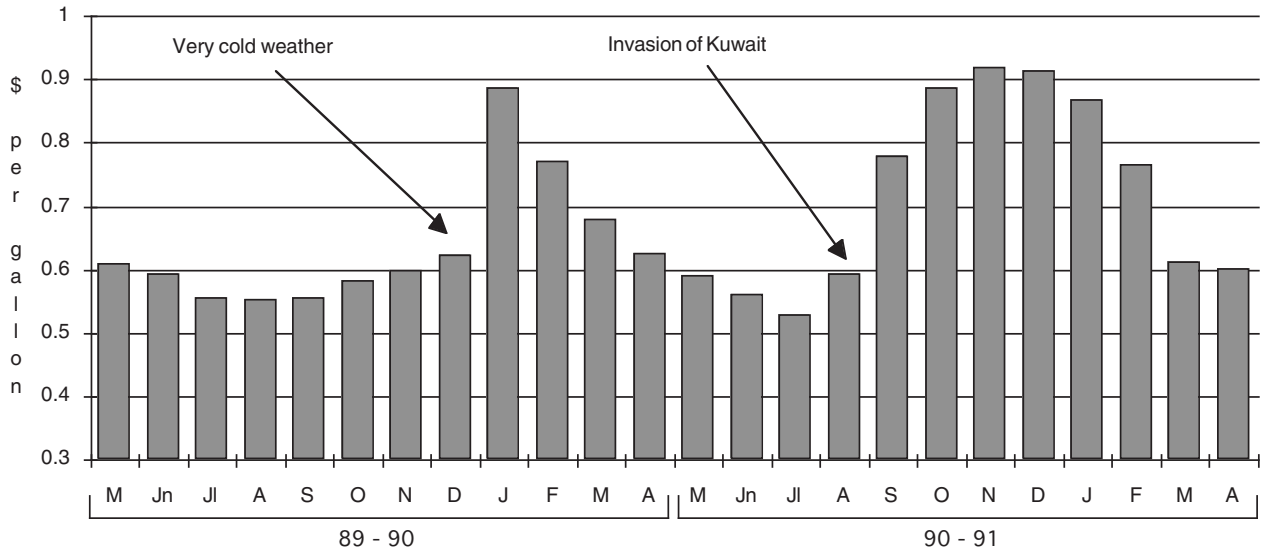
*It should be noted that some 32B-32J union members were not paid during the strike. The amount of wages lost by these employees may have exceeded gains from the labor settlement for the coming year.

Fuel Oil **+4.6%**

After a dramatic increase last year, fuel oil prices rose moderately in this year's price index. The invasion of Kuwait in August 1990 was followed by a steady increase in fuel oil prices - to a level slightly above last season's peak (January 1990, see chart). Although prices remained higher than last year throughout most of the heating season, the weather was much warmer. The higher temperatures nearly offset the increase in fuel oil prices, resulting in a relatively small change in the fuel oil price index.

The chart on this page shows prices for #6 fuel oil (the most important of the three fuel types) during the past two heating seasons. Last year prices were

Price of #6 Fuel Oil, 1989-90 and 1990-91



Source: *Price Index of Operating Costs*, 1990 - 1991.

relatively stable until one of the coldest Decembers on record forced prices up sharply in January. The pattern was much different this "season." The invasion of Kuwait in August triggered steadily increasing prices throughout the Fall and into December. However, after the Allied victory became apparent, prices fell quickly. In fact, the price decline in late winter/early Spring was somewhat swifter than last year.

Based on a casual inspection of fuel oil prices one would expect a much greater increase in the fuel oil price index. However, the index is "cost weighted." In other words, it is based on heating degree days as well as prices. As the heating degree day chart shows, the city had one of its warmest Fall heating seasons in recent years. Fuel oil prices were much higher in October, November, and December of 1990 than in 1989 but the weather was very mild. It is this interplay of generally warmer weather and higher prices which balances out, resulting in a moderate increase in the fuel oil price index.

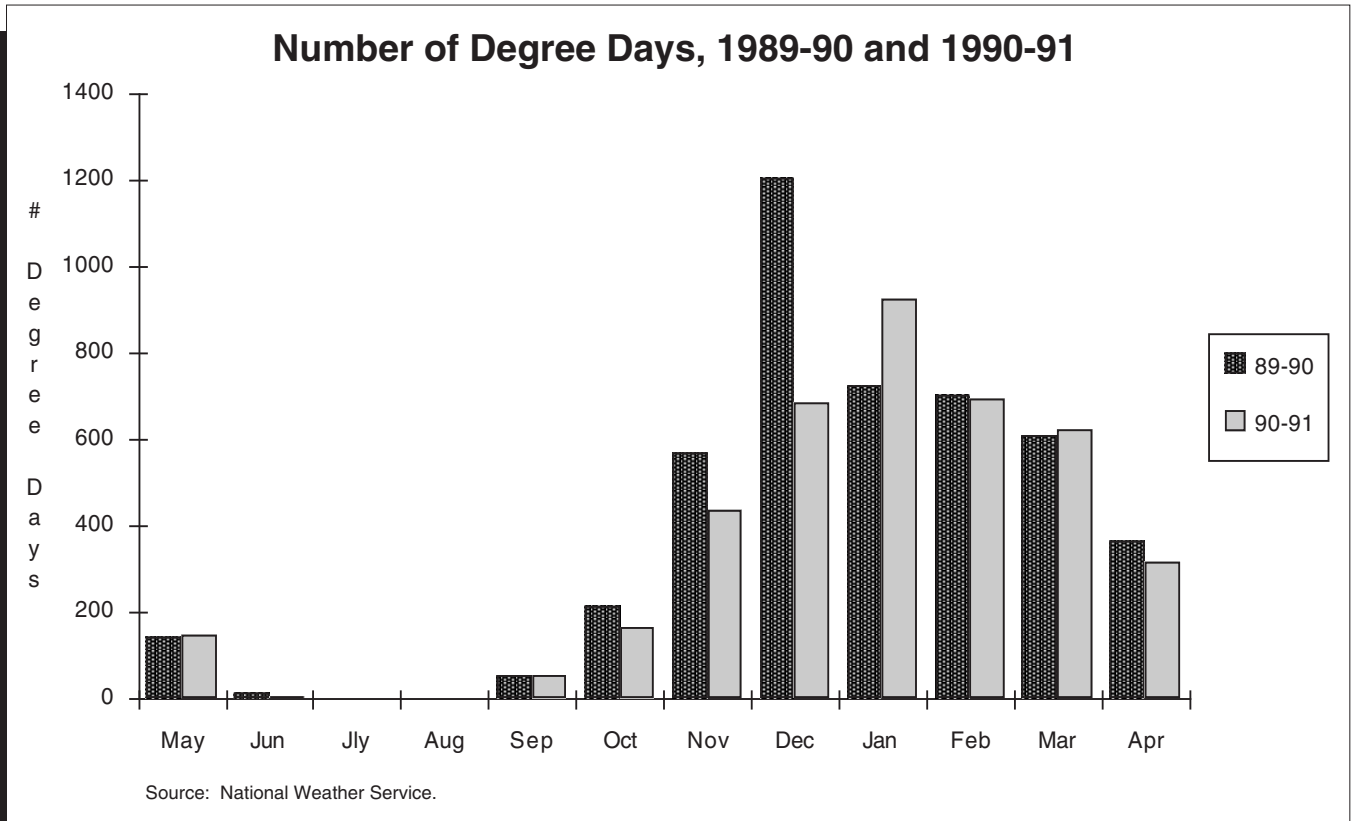
Among the various fuel oil components, the increases were: #6 - 3.3%, #4 - 7.6% and #2 - 4.5%. As noted in previous RGB staff reports, the price of #6 fuel oil seems to be more volatile than the other grades. The smaller increase for #6 oil is mainly due to a sharper rate of decline in the Spring months following the Iraqi war.

Utilities **+1.2%**

The utilities component consists primarily of electricity, natural gas, and water & sewer charges. Telephone and steam costs are also part of the utilities index but the weight of these two items is very low.

Over the past several years water and sewer charges have come to represent almost half of all utilities costs. The double-digit increases in water/sewer charges over the last several years (including a 45% increase last year) make water & sewer costs an important part of landlords' operating budgets. This year total water & sewer charges were up "only" 8%. This is the first single digit increase in the last five years.

Electricity costs were down slightly (i.e. less than 2%) this year following increases of 9% in both '89



and '90. Since rates have remained unchanged for several years and the PIOC measures the percentage change on an April-to-April basis, increases (or decreases) tend to be unpredictable. The fuel adjustment charge which happens to be in effect in April determines the increase in the electricity component.

Gas costs decreased by approximately 10% in the past year. The decrease is due to a change in the rate structure which rewards large gas users, somewhat more favorable fuel adjustment charges, and warmer weather. Gas, like fuel oil, is measured on a "cost-weighted" basis which takes both price and heating degree days into consideration.

Contractor Services ***+5.5%***

The increase in the Contractor Services component this year is the second lowest in the past twelve years. Although many contractors indicated that costs increased due to wage increases, union settlements, or the price of supplies, more said that prices were unchanged from last year. In fact, some contractors volunteered that prices had been reduced due to a shortage of business.

Of the sixteen items in the contractor services component (e.g. painting, plumbing repairs, elevator repair), fourteen had lower increases than last year and two had increases which were slightly higher than last year. The breadth of this change seems to reflect the slowdown of the city's economy. As we will see in the next section, cost increases also slowed in administrative costs.

Administrative Costs ***+3.0%***

Nearly two-thirds of the administrative costs component consists of management fees while most of the remainder is accountant and attorney services. Information on management fees was obtained from a large number of owners but used only if the management company had no equity interest in the apartment building. Fee quotations were obtained from accountants and attorneys based on specifications in the PIOC.

Although accountant and attorney fees rose at approximately the rate of inflation (6.1% and 4.9% respectively), management fees were up only 2%. The small rate of increase in management fees could be a reflection of weakness in the real estate sector. Of the owners and management companies interviewed for this spec, 60% reported either the same management fee as last year or a decrease in the fee. Only 40% reported increases - and most of these were quite moderate.

Insurance Costs ***+4.4%***

A total of 108 verified insurance quotes were obtained this year. Information on insurance costs and coverage (i.e. deductible, value, coverage change) were obtained through the owner survey. After survey staff obtained a policy number from the management company or building owner, the price quotes for 1990 and 1991 were confirmed with the insurance carrier.

To assure that the PIOC measures a hypothetical insurance policy which is constant in quality, a regression equation was used to remove the effect of changes in coverage, deductibles, etc.*

Following the enormous increases in insurance costs in 1986 and 1987, recent changes in insurance have been quite moderate: 1.6% in 1988, -.6% in 1989, 3.6% in 1990 and 4.4% this year.

Parts and Supplies ***+3.5%***

Increases in this component have been remarkably consistent since 1983, ranging from 2.3% to 4.7%. This year was no exception. Given the low weight of the parts and supplies component in the PIOC (less than 3%) and the small price increase in this component, parts and supplies had scarcely any effect on the overall increase this year.

Replacement Costs ***+1.3%***

The replacement costs index is less significant than the parts and supplies component, accounting for slightly more than 1% of the weight of the price index. Price increases have been quite low since 1983, ranging from -0.4% to 3.2%. The increase this year was typical and has little effect on the overall increase in the PIOC.

* The fitted regression equation was:
Log(Ins91) = .04482 + .99878 Log(Ins90) +

1991 Price Index of Operating Costs for Rent Stabilized Lofts

.069373 x DINC + .007626 DDEC where DINC and DDEC are dummy variables measuring changes in insurance coverage.

Change in the Components of the Loft Index, All Lofts, April, 1990 to April, 1991

Taxes, Fees and Permits	9.8%
Labor Costs	5.2%
Fuel Costs	6.2%
Utilities Costs	1.2%
Contractor Services	5.5%
Administrative Costs - Legal	4.9%
Administrative Costs - Other	2.6%
Insurance Costs	4.4%
Parts & Supplies	3.5%
Replacement Costs	1.3%
Overall	**5.4%**

1992 PIOC Projection for Rent Stabilized Apartments

Summary

In 1986 Abt Associates Inc. conducted an expenditure study of loft owners to construct weights for the Loft Board's index of operating costs and to determine year-to-year price changes. In subsequent years data from the PIOC for stabilized apartments was used to compute changes in costs and to update the loft expenditure weights. This is the procedure we use this year.

The overall change in the loft index was 5.4%. The increase was virtually the same for lofts with heat included and for all lofts. The change in the loft index was very similar to the apartment PIOC (5.3%) despite the fact that the expenditure weights for the two types of buildings are dissimilar. In the loft sector legal costs, management fees, and insurance account for nearly 40% of all costs; the comparable figure for apartments is 15%.

The table on this page shows the increase in each of the loft index components. Given that the price relative data comes from the apartment PIOC, it is not surprising that increases generally parallel the apartment index. The exception is fuel costs. The increase in fuel costs was somewhat higher because the majority of lofts are heated with #4 oil which increased in cost more than the other grades.

1991 PIOC and 1992 PIOC Projection

	Price Index 1990-91	Projected 1991-92
Taxes, Fees, and Permits	9.8%	15.4 - 22.3%
Labor Costs	5.2%	4.7%
Fuel Costs	4.6%	-12.0%
Utilities	1.2%	10.5%
Contractor Services	5.5%	5.7%
Administrative Costs	3.0%	5.7%
Insurance Costs	4.4%	2.5%
Parts and Supplies	3.5%	2.9%
Replacement Costs	1.3%	2.1%
Overall	**5.3%**	**6.1 - 7.7*%**

*Range depending on tax increase. See the first Editor's Note on the next page.

The table on this page shows the projected price increases for 1991-1992 compared to actual increases measured by the 1991 price index. The major differences between the 1992 projection and the 1991 PIOC will be in the taxes, utilities, and fuel components.

In ordinary circumstances one might expect the rate of increase in real estate taxes to slow as billable assessments "top out." In fact, this has been the case - the rate of increase in billable assessments has slowed in the last two years. Unfortunately, the city's current financial situation makes an increase in the tax rate a very likely possibility. This tax rate increase, combined with a rise in billable assessments, will most likely result in a larger increase in the tax component next year.

In 1991 the utilities index was essentially unchanged due to offsetting decreases in gas and electric costs and a moderate increase in water & sewer fees. Next year water & sewer fees are expected to once again show a double-digit increase. A small increase is also expected in gas and electricity costs. The net result will likely be a substantial increase in utilities costs.

Predicting changes in fuel oil costs is a risky undertaking. Barring any unforseen wars or natural disasters, and assuming that the weather is "normal" next year, cost-weighted fuel prices should decline.

Editor's Note: Mayor Dinkins and the New York City Council reached agreement on the FY 92 budget after the completion of this report. The actual tax rate for Class Two properties in FY 92 is 9.885%. Accordingly, our FY 92 projection for taxes and the overall PIOC should be changed to 11.6% and 5.2% respectively.

Taxes, Fees and Permits

Real estate taxes constitute the largest single component of the PIOC, and will account for about 25% of the entire index next year. The importance of real estate taxes has grown in recent years because tax increases have exceeded the overall increase in the PIOC since 1985, when taxes made up only 18% of the PIOC.

There are several factors which make it difficult to accurately project changes in taxes. The overall tax bill is based on changes in billable assessments, tax rates, and changes in exemptions and abatements. Unfortunately, staff only has reliable information on one of these components - final billable assessments. The ultimate determination of the tax rate for Class Two properties awaits the final resolution of the city's budget crisis. Changes in exemptions and abatements are projected based on recent trends.

Given the volatile budget negotiations now in progress, it is very difficult to make a reasonable tax projection. As a result, we have decided to provide a range of possibilities. If the mayor's preliminary package is adopted, taxes on Class Two properties would rise 22.3% (i.e. given an 8.4% increase in billable assessments and an increase in the tax rate of 12.8%). Assuming that only one-half of the tax rate increase is adopted, taxes would rise by 15.4%.

Labor-Based Components

(Contractor Services, Labor Costs, and Administrative Costs)

Each of these three components is based primarily on some type of labor cost. In the case of contractor services most of the expense is wages of plumbers and painters. The category "Labor Costs" is based entirely on wages and benefits of building staff (e.g. supers, porters). Administrative Costs are largely management fees, attorney fees, and accountant fees.

During the 80's there was a steady downward drift in the rate of increase in the labor-based components. After reviewing the results of the 1991 PIOC it appears that this

Editor's Note: According to the New York State Public Service Commission, Con Edison filed for an increase in electricity rates (on May 3, 1991) subsequent to the completion of the PIOC projection. The increase in the natural gas rate, which was finalized after the completion of this report, is 8.7%.

downward trend has accelerated, probably due to the city's deep recession. Increases for the three labor components were quite low this year.

The method used to project the 1991-1992 increase for contractor services and administrative costs will be the same as last year - the latest three-year average for these components. This results in a projection of 5.7% for Contractor Srvices and Administrative Costs.

It is generally quite easy to "project" the labor component since union wage settlements are known well in advance. Using the union wage increases which are known (i.e. 32B - 32J) and assuming that other union and non-union increases parallel this year's wage settlements, the projected increase in the labor component is 4.7%.

Utility Costs

Utility costs consist of electricity, natural gas, water/sewer charges, purchased steam, and telephone bills. The first three items account for over 95% of the utilities index.

During most of the 80's electricity costs were flat or declining. Moderate increases or decreases from year to year were due to changes in the fuel adjustment charge rather than to changes in rates, which have remained the same since 1987. Con Edison has not filed for a rate increase for next year.

Next year's change in electricity costs will be determined by fluctuations in the fuel adjustment charge. These may be due to unforseeable circumstances (e.g. shutdown of a nuclear plant) or based on changes in fuel costs (e.g. coal, fuel oil). Given the weak economic environment and slightly lower fuel oil costs next year (see the following section on fuel oil), our projection is that the cost of electricity will fall by 5% in the coming year.

Con Edison has filed for an increase in natural gas rates. The change is likely to be approved and will amount to an 8.6% increase. Brooklyn Union Gas has also filed for an increase but it is uncertain if the rate increase will be approved. The Con Ed rate increase, combined with some recovery in the market for natural gas, which has been extremely weak of late, should result in a recovery of natural gas costs to 1989-90 levels.

Between 1985 and 1991 water/sewer increases were in the double-digits five of the six years, resulting in a compounded increase of nearly 150%. The weight of the water/sewer component in the utilities index was 24% in the 1985 PIOC but will increase to more than 50% in 1991-92. The Water Board has proposed an 18.45% increase for next year.

Combining all of the decreases and increases in the utility components and multiplying by approximations of next year's weights yields a projection of a 10.5% increase in the utilities component.

Fuel

If it is safe to assume that the international situation will remain calm next year, oil prices will probably decline. The recession in the United States has now spread to other parts of the industrial world; decreased demand for petroleum products will be the likely result. In addition, countries such as Saudi Arabia and Kuwait are financially distressed and will feel considerable pressure to increase revenue through greater production in the coming year. Greater supply will probably depress prices.

This projection assumes that we will have a "normal" winter next year (i.e. the typical number of degree days in each month) and that fuel prices will fall to last year's level. This would result in a 12% decline in fuel oil costs.

Insurance Costs

While other types of costs tend to increase ❑

Editor's Note: The proposed increase for water and sewer charges was approved after a public hearing in May. It is effective as of July 1, 1991.

Evaluation of PIOC Methodology

The issue of "PIOC methodology" is extremely broad. It can encompass everything from the "big" issue of the reliability of the price index as a means of estimating increases in costs to the sources of lists used in the owner survey. This section addresses a number of PIOC issues, both large and small. The result will be a suggested work plan for the coming months which will include an evaluation of the PIOC and possible improvements for 1992. (See Appendix D for a time schedule for the 1992 PIOC and Related Studies.)

The Price Index as a Surrogate Measure of Cost Increases

During the past two years staff has completed a substantial amount of PIOC-related research. The major topics of concern have been the reliability of USR&E's 1982 expenditure study, the accuracy of the PIOC between 1970 and 1982, and the true level of the O&M to rent ratio. All of these studies improved our understanding of the PIOC. Unfortunately, none was able to directly address one extremely critical issue: How accurate is current PIOC methodology in estimating actual cost changes?

Even in an ideal world, in which staff had access to complete owner records, this would not be an easy question to answer. Several years worth of cost data would be required to reach tentative conclusions about the PIOC's accuracy. Additional time would be needed to evaluate the accuracy of individual PIOC components and to propose and test alternative methodologies for measuring these components. The entire process could easily take ten years.

This year staff had planned the first longitudinal analysis of I&E data. Although the '88 data was not available, the Finance Department did indicate some willingness to recreate the 1988 data set or to produce '88 data using this year's (89) sample.

Recommendation: Request longitudinal data from the Department of Finance.

Expenditure Weights and Market Basket

The PIOC expenditure weights and market basket were devised by the U.S. Bureau of Labor Statistics in 1970. In 1982 the RGB commissioned a study by USR&E to update the PIOC expenditure weights. However, USR&E was not charged with reformulating the market basket - it has remained substantially unchanged for the past twenty years.

The 1988 and 1989 Income and Expense studies offer the best means of evaluating the expenditure weights. The table on the next page compares the PIOC weights with the I&E studies. Note that the category "Maintenance" includes contractor services, replacement costs, and parts & supplies. Miscellaneous costs are not included in the computations.

For purposes of comparison, the '89 I&E study is grouped with weights which are an average of the 1989 and 1990 PIOCs while the '88 I&E study is grouped with an average of the 1988 and 1989 PIOCs. In each year the I&E and PIOC expenditure weights are quite similar. The major exception is the administration category, and to a lesser extent utilities.

How much of a difference would one see in the overall index change if the I&E weights were substituted for the PIOC weights? In 1989 the I&E weights would have added about one-tenth of a percent to the overall index.

The case for altering the PIOC component weights (using the I&E information which is

Weights Comparison, PIOC and I&E Study

	89-90 PIOC	89 I&E	88-89 PIOC	88 I&E
Taxes	22.0%	21.4%	20.4%	19.8%
Labor	16.8	15.6	17.2	14.3
Fuel	11.9	11.5	12.9	13.3
Utilities	12.5	8.8	12.1	8.9
Maintenance	20.4	21.6	20.3	23.0
Administration	8.7	14.5	8.8	12.6
Insurance	7.7	6.0	8.4	8.2

Source: 1989-90 *Price Index of Operating Costs* and 1988-89 Income and Expense Studies.

currently available) is not compelling. However, the discrepancy in the administration category certainly suggests the possibility that administration costs are a higher percentage of all expenses than previously thought. In addition, it may be that the twenty-year old administration market basket no longer adequately reflects landlords' actual expenditures.

Questions about the accuracy of the expenditure weights and the market basket can only be addressed through some sort of expenditure survey. Given the city's fiscal situation, the Board's current budget, and concerns about the integrity of the I&E data, an audited sample of I&E forms appears to be the only satisfactory method to conduct the survey.

Recommendation: Explore with Finance the possibility of auditing a sample of I&E statements.

Changes in Methodology

In this paper the term "changes in methodology" implies fundamental changes in the data or the computational techniques used to compute the price relatives. In past years such changes have included switching from point-to-point measurement of fuel oil costs and the inclusion of information on abatements and exemptions in the computation of the tax relative. Improvements in the lists used for the PIOC (e.g. owner or vendor lists), changes in sample size, or minor alterations in data gathering techniques cannot be considered changes in methodology. Those issues are considered in the last part of this discussion (page 26).

In its proposal for the 1991 PIOC Abt Associates summarized the major methodological changes which have been proposed in the past few years. Abt's suggestions, and the rationale for each, are as follows:

- **Replace the owner survey with a vendor-type survey.** The owner survey measures changes in the cost of management fees, non-union labor, and insurance. According to Abt, the survey has a low response rate, indicating that the data may not be representative of all stabilized buildings. In addition, "the costs associated with this data collection effort are high relative to the amount of data it yields."
- **Change the measurement of the steam and electricity price relatives to a weighted method.** In the early 80's measurement of the fuel oil and natural gas relatives was changed to a cost-weighted method

to recognize the importance of monthly fluctuations in price and the weather. Although electricity also varies in price from month to month, this component continued to be measured on a point-to-point basis.

Any "improvements" in PIOC methodology must be judged on a number of factors including feasibility, cost, reliability, and accuracy. The proposal to replace the owner survey with a vendor-type survey appears to be feasible, although a great deal of work would be needed to devise an adequate "standard" insurance policy and management contract. In many other ways though, the proposal is less than compelling:

1. The cost of the owner survey, in terms of the volume of data collected, is relatively high. However, this data is a very important part of the PIOC. It would appear to be a better strategy to reduce the sample sizes of items which are less important (e.g. replacement costs) and to redouble our effort to increase the sample size for the owner survey items.
2. It is difficult to evaluate the "representativeness" of the owner survey data. One might argue, though, that a vendor survey may be just as unrepresentative since quotes would be obtained from insurance companies and management firms which may do little business with rent stabilized apartment buildings.
3. It is unclear why it would be desirable to switch from a methodology which measures actual cost increases to the measurement of hypothetical price increases. More price quotes would be obtained, but these would presumably be less accurate quotes.

It does not appear to be desirable to abolish the owner survey altogether. The survey produces very reliable data, albeit at a high cost. However, the non-union labor component of the owner survey is worthy of some discussion:

1. It is almost impossible to obtain wage information for hotel workers. This year we called dozens of hotels and obtained only 5 responses for maids and desk clerks. Speedwell reported similar results last year.
2. Non-union labor quotes are difficult to obtain. Many buildings have no non-union employees. In other cases owners provide wage rates but it is extremely difficult to verify these rates with employees. Many employees simply can't be reached (e.g. no telephone) or did not work in the building the previous year.

Modification of the non-union labor component could take several forms. Abt has suggested that union labor contracts or BLS wage data might serve as a proxy for non-union labor. Another possibility would be to relax the verification requirements for non-union labor quotes. Staff would like to analyze these possibilities this Summer and present its findings to the Board before the end of this year.

Price increases for electricity tend to be quite erratic. In recent times, year-to-year changes have been determined by the fuel adjustment charge for April. Changes in this charge vary, depending on the price and availability of fuel, the amount of electricity purchased, and the types of plants producing electricity (e.g. fuel oil powered vs. nuclear). The shutdown of a nuclear plant in April can have a major impact on the fuel adjustment charge.

A weighted approach would appear to be a more reasonable method of measuring changes in electricity costs. The method would weight each month equally (i.e. unlike fuel oil) since electricity use is not greatly influenced by weather conditions.

Recommendation: Explore the possibility of changing measurement of non-union labor costs. Consider changing the measurement of electricity costs from an April-to-April schedule to a twelve-month average.

Sample Size, Data Collection, List Updates, and Administration

In 1990 the RGB staff produced a surrogate PIOC for the Board to consider before its vote on the preliminary guidelines. In this index staff used fuel oil data gathered by the Department of Consumer Affairs. DCA obtained this information in a monthly survey of vendors. By comparison, the PIOC gathers fuel oil information for a twelve or twenty-four month period each April.

During the presentation of the 1990 PIOC there was some discussion about fuel oil data collection methods (i.e. monthly or once a year) and whether the reliability of the data is affected by the data collection method. It was suggested that monthly data collection could produce more reliable results if the record keeping of fuel oil firms is suspect. In addition, monthly data collection would help alleviate part of the "crunch" during the very busy month of April.

Staff would like to test the feasibility of gathering fuel oil data on a monthly basis. If vendors are willing to participate in a monthly survey, and the routine of calling vendors is not too burdensome, this method would be used in future PIOCs.

Each PIOC "season" a great deal of time and effort is spent gathering price quotes for the parts & supplies and replacement costs components. In 1991 nearly five hundred price quotes were gathered for these market basket items (e.g. light bulbs, refrigerators). Although the quotes are relatively easy to obtain, the process is rather time consuming. All of the prices are gathered "on site," usually after an appointment has been scheduled; travel time consumes a substantial part of an interviewer's day.

The weight of the parts & supplies and replacement costs components in the PIOC is quite low - 3% and 1% respectively. Yet, gathering the price quotes for these items takes at least 25% of our interviewer hours. The most efficient way to enhance the reliability of the PIOC would be to reallocate some of the interviewers' hours from gathering parts & supplies and replacement cost quotes to other areas (e.g. additional management company or fuel oil quotes).

The difficulty with this plan is that our current records are organized by vendor rather than by "spec;" none of the vendor data is computerized in a useful manner. This lack of organization makes it difficult to update the vendor lists and to control the number of price quotes obtained.

Entering all of the vendor information in a relational database would greatly improve administration of the PIOC. Interviewer time would be used more efficiently and staff could reallocate some hours from gathering parts & supplies and replacement costs price quotes to other areas.

Each year the PIOC requires a certain amount of "maintenance." This year a new list of stabilized buildings was obtained for the tax computations and the owner survey. In addition, the vendor list was updated and a substantial amount of time was devoted to improving our fuel vendor records. Next year the following items should be priorities:

1. Update the owner mailing list with 1990 DHCR registration information;
2. Update vendor lists;
3. Obtain revised percentages of Pre 47 and Post 46 buildings from 1991 HVS.

In addition to standard list updates staff would like to investigate ways in which to improve the response to the owner survey.

Recommendations: Test monthly survey of fuel oil vendors

Create vendor database and enter vendor data. Reduce number of price quotes for parts and supplies and replacement costs. Reallocate these interviewer hours to reduce standard error of overall PIOC estimate.

Update lists; investigate ways to improve response to owner survey. ❑

Rent Guidelines Board Annual Mortgage Survey

Survey Changes and Response

Changes in the Mortgage Survey

In light of the S&L crisis and the decline of the co-op market, we expanded our mortgage survey this year to include questions on changes in banks' lending practices. Banks were asked to estimate their level of lending in

Editor's Note: The mortgage survey was conducted in January of 1991. The responses indicated prevailing market conditions and interest rates at the time of the survey.

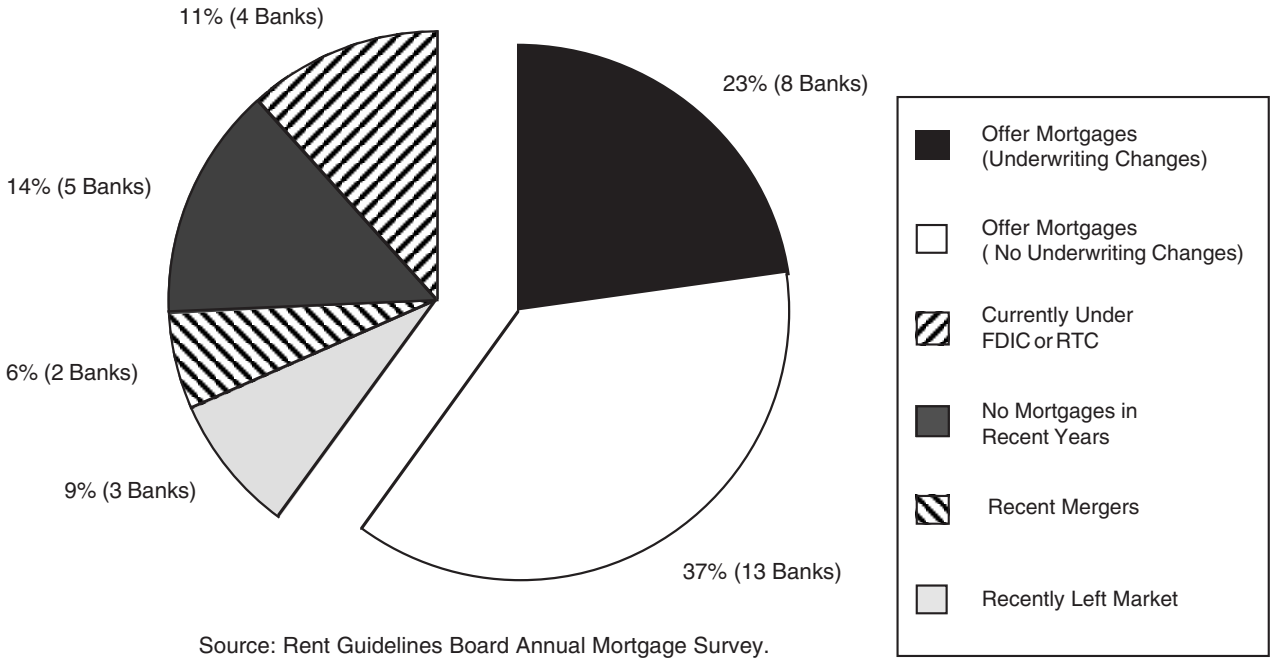
finance these two types of properties. In addition, we asked the banks to identify the causes for changes in lending practices.

Response to the Survey

The survey was sent to 56 financial institutions, including savings banks, commercial banks, and savings and loan institutions. Of the 35 responses we received, 16 banks had participated in our survey in 1990. Of these 16 respondents, one commercial bank - which was in the market during our last survey - has completely discontinued lending to any income-producing properties, including multi-family buildings and co-op conversions.

Most of the analysis of the mortgage survey which follows is based on the responses from 21 banks (60 percent of the entire sample) which do provide financing to multi-family buildings (see chart). Of the entire sample, there are 14 banks which either do not offer or have discontinued financing multi-family buildings for various reasons. Since our last survey in May 1990, two of the 14 banks were acquired by other financial

Mortgage Survey Respondents



Source: Rent Guidelines Board Annual Mortgage Survey.

institutions while one commercial bank, one savings bank and two savings and loans associations have fallen under the control of the FDIC or the Resolution Trust Corporation. Three banks have made major underwriting changes by discontinuing lending to owners of multi-family buildings. Lastly, five other banks have not offered financing to multi-family buildings in recent years.

In 1990, we received 16 usable responses from savings banks, five from commercial banks and six from savings and loan associations. This year, 16 savings banks, two commercial banks, and three savings and loan associations responded. The responses from savings banks once again constitute the majority of financial institutions in our survey.

Analysis of the Data Collected

Changes in Underwriting Practices

Of the 21 banks which still finance multi-family buildings, eight banks - including one bank which did not provide a percentage breakdown of its mortgage portfolio - have modified their underwriting practices to various degrees. According to their responses, these seven banks devote a significant portion of their financial resources to multi-family lending, an average of 58% of their portfolios. In fact, with the exception of two banks which have 33% and 5% of their portfolios in financing multi-family buildings , the remaining five banks devote nearly 75% of their mortgage portfolios to finance multi-family buildings. On the other hand, the remaining 13 banks which did not change their underwriting practices devote approximately 37% of their financial resources in multi-family buildings. Thus, it seems that banks which have a substantial investment in multi-family buildings are more likely to have made changes in their underwriting practices.

If a respondent indicated that the bank has made lending policy changes, he or she was then asked to identify the causes for the changes as well as the changes. Of the 11 banks which have made changes in their underwriting practices - including the three banks which subsequently left the market - seven banks identified payment delinquencies as the leading cause for the changes. Two of these banks indicated that higher taxes and fuel costs have accelerated the effect of payment delinquencies. Moreover, six banks identified opportunities in the secondary loan market which have affected their position, although banks differed on the exact level of opportunities. Only two of these banks felt that there was an increase in opportunities while the other four banks believed the reverse had occurred.

Excluding the three banks which no longer finance multi-family buildings, eight banks described the changes in their underwriting practices. Nearly 88% of the respondents (7 banks) told us that they have adopted more stringent appraisals. In addition, 75% of the respondents (6 banks) have lowered loan-to-value ratios. Lastly, five banks have increased the level of monitoring and reporting activities on their investments in multi-family buildings. However, none of the eight banks has increased its mortgage fees. This is consistent with our later discussion on points charged for new and refinanced mortgages. The respondents in our survey have chosen to make fundamental changes in their underwriting practices rather than pass on the increased financial risk to borrowers in the form of higher fees or points.

Financial Availability and Terms

The questions on financial availability and terms for new and refinanced mortgages are the same as those in our last survey. We asked our respondents to provide loan information on interest rates, points charged, lending period, types of loans, and any other applicable conditions or restrictions.

When we sent out the survey in January, 1991, the Federal Reserve had just lowered its discount rate to 6.5% in an effort to stimulate the growth of

money and credit. Many banks did not react to the Federal Reserve's effort wholeheartedly, although they reduced their mortgage lending rates somewhat. Compared to May 1990, the interest rates for new and refinanced mortgages have decreased from 11.2% to 10.7% and 11.2% to 10.8% respectively (see chart). Moreover, this is the third year that we have seen a decline in interest rates. According to the data in our prior mortgage surveys, after reaching a record high of 12% for both new and refinanced mortgages in 1989, the average interest rates for both mortgages decreased during the following two years.

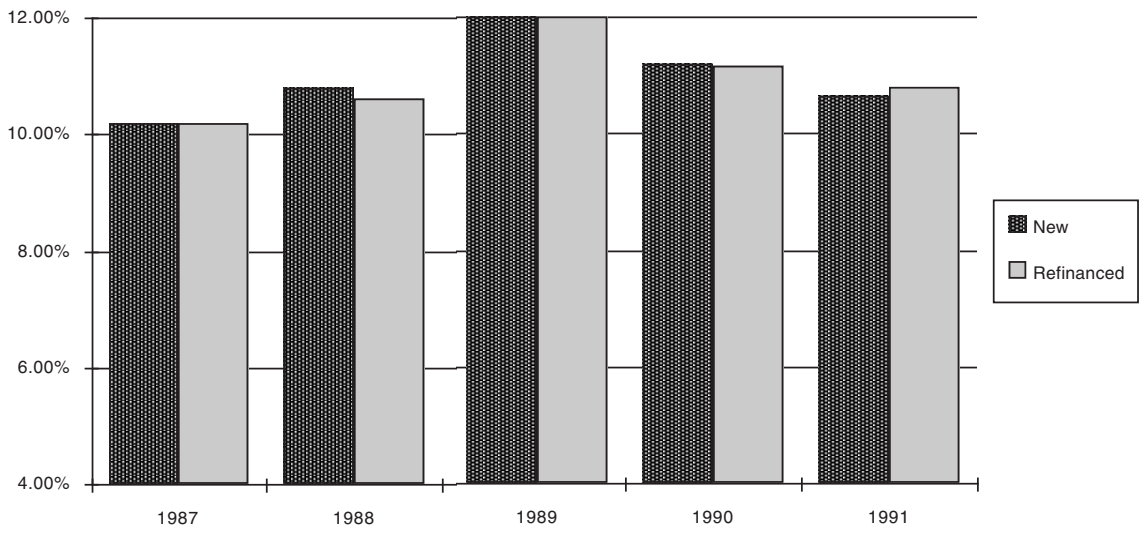
However, unless the Federal Reserve continues to lower its lending rate, most banks may not further reduce their interest rates on mortgages. In fact, according to a recent article in the *Wall Street Journal*, most banks have yet to reduce their lending rates on auto, consumer, and personal loans. Most bankers believe that the decline in the Federal Reserve's lending rate has just compensated for the higher costs of doing business such as paying the higher federal deposit insurance premium and contending with rising bankruptcies in the real estate market. On the other hand, the Federal Reserve holds a more optimistic view of the economy. In a recent hearing of the House Ways and Means Committee, Alan Greenspan, chairman of the Federal Reserve, indicated that the end of the Gulf War should bring back consumer and business confidence; it is therefore unnecessary to further reduce the Federal Reserve's discount rate. During this hearing, Mr. Greenspan also cautioned the Committee that it would be unwise to dismiss the possibility that "bankers' persistent reluctance to lend and the overbuilt real-estate sector will prolong the recession."*

The decline in effective interest rates is also reflected in the points charged by banks. In 1990, the banks charged an average 1.61 and 1.58 points for new and refinanced mortgages respectively. Points for both types of loans have declined approximately 20% to 1.28 points.

In 1991, the average lending period for both fixed rate and adjustable rate loans has also decreased. While the fixed rate loan remains the preferred financing method, the lending period for both types of mortgages has been shortened. The average lending period for new mortgages has dropped from 8.6 years to 8

*Wessel, David "Greenspan Sees Recession's End Relatively Soon." *Wall Street Journal*, March 7, 1991.

Average Interest Rates for New and Refinanced Permanent Mortgages, 1987-91



Source: Rent Guidelines Board Annual Mortgage Survey

years. Additionally, the lending period for refinanced mortgages has fallen from 7.5 years to 7 years. Again, even though many banks may be able to lower their lending rates because of the Fed's position, their apprehension of financial distress in the real estate industry is reflected by allowing a shorter lending period for new and refinanced mortgages.

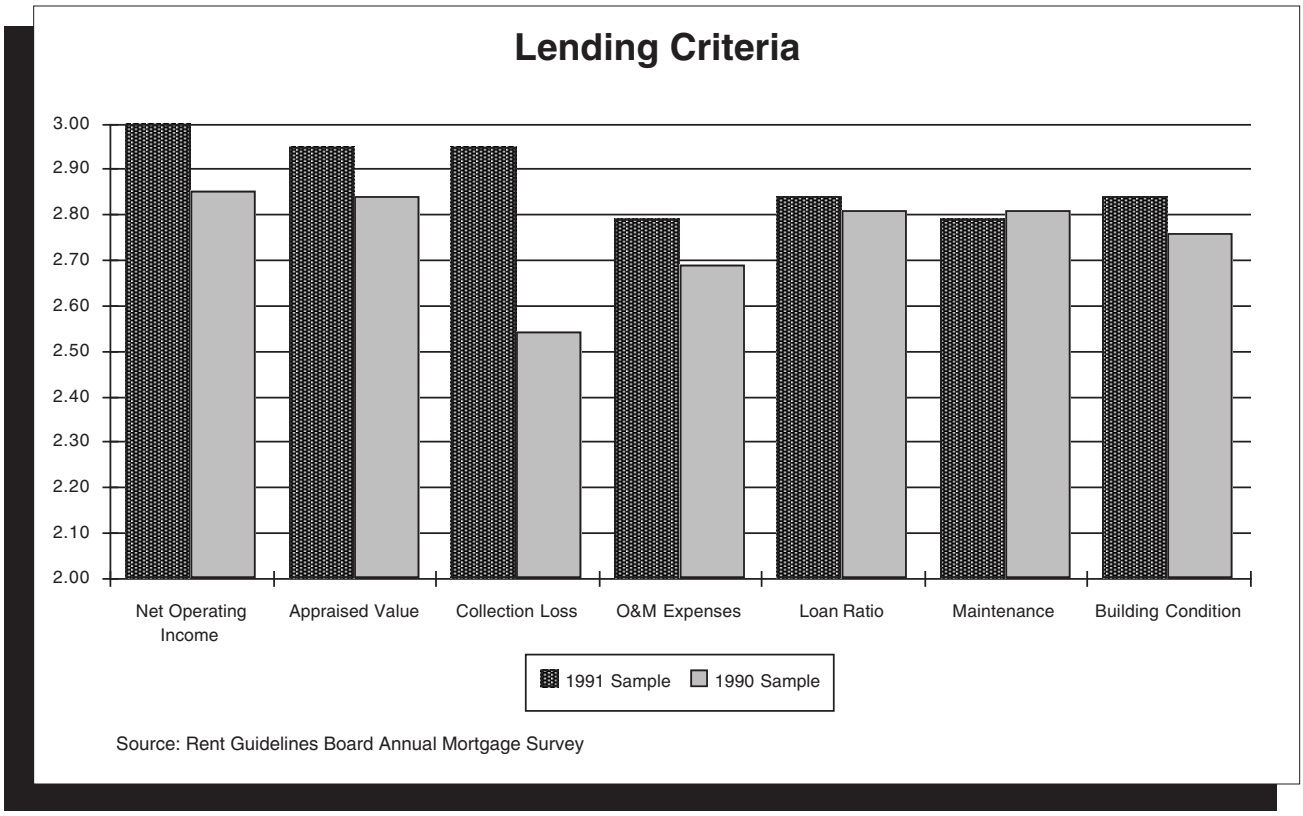
Lending Criteria

In the second part of the survey, we again asked our respondents to rank building characteristics and loan criteria on a scale of increasing importance from one to three. In 1990, our respondents ranked net operating income (2.85) as the most important loan criterion. It was followed by appraised value (2.84), loan-to-value ratio (2.81), building maintenance (2.81), and condition of building systems (2.76). Excluding their utmost concern for an owner's monthly cash flow, our respondents placed significant emphasis on the physical aspects of the buildings.

In 1991, our respondents still ranked net operating income (3.00) as the most important loan criterion. However, it is now followed by appraised value (2.95), and the vacancy and collection loss rate (2.95). Moreover, our respondents placed considerable emphasis on loan-to-value ratio (2.84) and condition of building systems (2.84). It seems that an increasing number of lenders in our sample are more concerned with the vacancy and collection loss rate, which was not even one of the top five criteria in the prior survey (see chart). In fact, 14 of the 16 respondents who have participated in our last two surveys ranked the vacancy and collection loss rate with an average score of 2.57 in 1990 and 2.92 in 1991 respectively. It seems that a growing number of lenders are paying closer attention to monetary indicators other than net operating income, although they still recognize the importance of physical indicators.

Financing Co-op Conversions

As co-op and condo ownership flourished throughout much of the eighties, it provided an alternative for landlords as well as tenants. Landlords were able to increase their income. Tenants saw it as an opportunity for home ownership. However, when the real estate market slowed down in the late eighties



Source: Rent Guidelines Board Annual Mortgage Survey

many sponsors experienced various cash flow problems in meeting their maintenance and/or mortgage payments on the unsold co-op shares. Some sponsors filed for bankruptcy while a few have lost their properties to their lenders. Some of the thrift institutions which had previously foreclosed on co-op sponsors have also slipped into bankruptcy.

In December 1990, we met with Mr. Frederick Mehlman, Bureau Chief of the Real Estate Financing Bureau of the the New York State Office of the Attorney General. While Mr. Mehlman was reluctant to identify a singular cause for the current financial conditions in the co-op and condo market, he believed that the non-eviction conversion laws which require only 15% "insider" purchases and indiscriminate lending to sponsors to be the major problems. In the December 1990 issue of the *Empire State Report*, Mr. Mehlman was asked by Alex Storozynski to comment on the breakdown of the co-op market. In Storozynski's article, "The Co-op Financing Shell Game," Mr. Mehlman was quoted, "You can't point your finger at any one culprit. But the laws that allow for 15% purchase, tenants and banks lending money wildly to sponsors, and the change in the tax laws are certainly a major part of the problem. It set up a structure that allowed this to exist."*

In order to restructure and revitalize the thrift industry, the federal government established the Resolution Trust Corporation in 1989 to bail out over 400 insolvent thrifts. The Resolution Trust Corporation's mission is to obtain the best possible financial return from the assets of the failed savings and loan associations and other financial institutions. Accordingly, it has to find ways to liquidate the failed thrifts' unsold co-op shares as well as their other assets. In late 1990, the Resolution Trust Corporation threatened to evict some rent-regulated tenants and increase the rent to cover the co-op maintenance expenses in others in the New York City area, but it temporarily suspended these actions because of the Attorney General's opposition and his promise to challenge the evictions in court.

In February 1991, in an effort to proceed with evictions, the Resolution Trust Corporation filed an action for declaratory judgement in a New York Civil Court. The Resolution Trust Corporation argues that "taxpayers who are paying for the thrift-industry bailout, should not be forced, in effect, to subsidize the rent of those tenants."** Depending upon how the court resolves this matter (which largely concerns the supremacy of The Financial Institutions Reform Recovery and Enforcement Act of 1989 over the State's police power) it may have a notable impact on the population of rent-regulated apartments in New York State in coming years.

In response to these unresolved issues, we added several questions to the survey concerning the availability of financing and the underwriting practices for co-op conversions. Of the 21 banks which finance multi-family buildings, 16 banks responded to our questions regarding co-op conversion financing. Fourteen of the 16 banks, or 88 percent of our respondents, told us that they have made changes in their underwriting practices. Eight of the 14 banks, nearly 60% of respondents, have completely discontinued financing co-op conversions while six banks remain in the market. Excluding one bank which has 50% of its loan portfolio in co-op conversions, the remaining banks have at most 20% of their mortgage portfolios in co-op conversions, with an average of 11% among the seven banks. One of the most common loan prerequisites among respondents who still finance co-op conversions is requiring sponsors to obtain a substantial percentage of inside buyers. They require anywhere from 50% to 90% of units to be sold to inside buyers. This is considerably higher than the 15% "insider" purchases minimum stipulated by the co-op conversion laws for a non-eviction conversion.

When we asked the 14 lenders to identify reasons for changing the lending requirements, 85% of the respondents (12 banks) identified the increase in defaults by sponsors as the major impetus for change. Moreover, nearly 80% (11 banks) also cited loan delinquencies as an important factor.

*Storozynski, Alex "The Co-op Financing Shell Game." *Empire State Report* December 1990.

**Lueck, Thomas J. "Rent Law Fight Pitting U. S. Against New York." *New York Times*, February 26, 1991, p. B3.

Owner Income and Expense Study

Preface

Since its establishment in 1969, the Rent Guidelines Board has been concerned with developing accurate ways to measure changes in operating costs and rent levels. The annual price index of operating costs was, for many years, the centerpiece of the effort to measure changes in operating costs. A staff prepared rent index tracked the impact of the Board's orders on rent levels. In the late-seventies a table comparing changes in operating costs with changes in rents became a prominent fixture in the Board's annual explanatory statements.

The general accuracy of this table, commonly known as "Table 14," remained largely unquestioned until 1989. In that year an intensive review of many of the assumptions contained in the table was undertaken. Alternative data sources failed to corroborate the relationship of rents to operating costs shown in the table, and a recommendation for further study was made. In 1990, the Board requested rent and operating cost data from the Department of Finance. This data was made available through income and expense statements filed pursuant to local law 63 of 1986. While this new information allowed the staff to narrow the issues in need of further research, the staff ultimately reported that "the uncertainties which remain continue to preclude a conclusive and unassailable statement about the economic condition of rent stabilized housing in New York City at this time." Data verification systems not available to us because of legal restraints and resource limitations prevented and continue to prevent more definitive results. In short, while no comprehensive and conclusive study has yet been undertaken, the information available to the Board has grown dramatically in recent years and we believe that the guideline setting process has benefitted.

Perhaps the most significant lesson to emerge from these information gathering efforts has been that public dialogue - critique and discussion of the information presently available - is essential to the integrity and continuing development of the process. Measuring the viability of housing in New York City requires an immersion into the many complex social, market and regulatory forces at work. Even in an area as ostensibly straightforward as analyzing the changing relationship of rents and operating costs, a sensitivity to these forces is needed. One of our deepest regrets about last year's I&E report was the limited time available with which to publicly discuss and further analyze the data. This year's I&E report is being issued three months earlier. Consequently, the Board along with industry and tenant representatives will have more time to examine the report.

Editor's Note: This report was originally issued as an interim report in March. Readers should refer to the section of this report entitled "An Addendum to the Owner Income and Expense Study" for elucidation of issues that were raised after the distribution of the interim report.

Methodology

Sample Frame

The sample frame is the list of buildings obtained from the Finance Department's RPAD file. The Finance Department produced a listing of stabilized buildings meeting the following criteria as of November, 1990:

- Tax Class 2 parcels (i.e., multifamily residential properties with 11 or more units);
- Assessed value greater than $40,000.

To insure that the sample consisted of only stabilized buildings and buildings required to file I&E forms, the list excluded:

- Coops and Condominiums;
- Properties owned by the City, State, or Federal government.

The Finance Department organized the sample frame by borough, building age, and building size. The list also included: Block, lot, address, building class, and whether the building contained any commercial space. Finance provided the RGB with a magnetic tape of the RPAD sample frame as well as a computer printout.

Sample Size and Sample Design

The final sample for the study included 250 buildings built before 1947 and 250 constructed after 1946. This sample size of 500 buildings was sufficient to produce reliable estimates of monthly rent and O&M costs for the average stabilized unit. To insure that units in large buildings would not be underrepresented, staff decided to use the same cluster sampling strategy as last year. Three variables established the cells or clusters: Number of units, borough, and date of construction. The structure of the cluster sampling strategy guaranteed that the final sample had the same characteristics as the city's stabilized stock. Therefore, the statistics derived from the final sample should be unbiased.

The specification of the cells, and the distribution of sample units among the cells are the same as last year's study. (For further details see, *Rent Stabilized Housing in New York City: A Summary of Rent Guidelines Board Research, 1990*).

The primary objective in choosing the sample was to minimize sampling error and bias. Thus, the first criterion for the final sample was that each building in the sample frame has an equal and independent chance of being part of the final sample. Staff used SAS software to generate a table of random numbers for selecting the buildings in each cell. The values of the random numbers determined which buildings would be selected for the final sample. That is, a building would be selected only if the value of its random number fell within the given interval.

First, the SAS program assigned a random number to all buildings in each cell from a normal distribution table with mean zero (0) and variance one (1). Since the resulting set of random numbers contained negative and positive random values, it was necessary to select an interval which included values on both tails of the random distribution. If a building's random number fell outside the

interval, then the building was not included in the final sample.

Last year, staff manually selected the sample with the aid of a random number table. However, for the new study staff used the SAS software exclusively to generate the table of random numbers and to select the sample. The current sample is less likely to contain errors, and the computerized procedure took significantly less time and labor than last year.

Due to the possibility that some I&E forms might be incomplete, or the likelihood that some landlords did not file their I&E statements, the final sample sent to the Finance Department contained more than twice as many buildings as the target sample size of 500.

Changes in the I&E Study

No changes in sampling methodology were made this year. As explained in a previous section of this paper, the sample size, sampling strategy, and weighting of the data remain the same. After conducting (and later critiquing) last year's study, staff has been able to incorporate several non-sampling changes which should improve the reliability of the I&E data.

The major change which has been made this year is an effort to improve the quality of the final sample. By excluding buildings with short accounting periods or no rental income we may have eliminated some possibly serious distortions from the data. In addition, examination of the "miscellaneous" category by Finance Department assessors has enabled us to remove inappropriate expenses (e.g. mortgage interest or major capital improvement costs). The assessors also reclassified expenses if the owner provided sufficient information for them to do so.

Explicit instructions were given to the assessors as follows:

- all expenditures clearly identified on the I&E form as mortgage interest, capital costs, or depreciation should be eliminated;

- expenses mistakenly placed in the miscellaneous category should be reclassified;

- no "percentage test" was to be applied to the miscellaneous category or any other category.

As in any survey, respondents sometimes make mistakes in answering questions. It is standard practice in survey research to eliminate inappropriate responses, reclassify answers, and so on. The job of the assessors was, in essence, to undertake this "cleaning" of the data.

The RGB requested two major changes in the type of summary output to be provided. To gain deeper insights into the issue of average rent and expenses for a typical unit in a stabilized building, and to compute O&M costs attributable to apartments only, Finance agreed to produce summary statistics for buildings without any commercial space. To aid in this analysis, RGB staff devised an aggregate commercial income variable.

In last year's I&E study, Finance computed an O&M to gross income ratio for each building. Although more than 1/2 of the buildings had ratios at or below the .65 level, an unexpected proportion of buildings had a ratio above 75%, and nearly 10% of the sample had an O&M ratio of 100% or more. Unfortunately, last year's study was not designed to study the characteristics of these buildings. Thus, for the current study RGB staff requested

separate summary output for buildings with an O&M ratio equal to or greater than 100%. By segregating these buildings it has been possible to identify the effect of rents, expenses and other factors on these buildings.

Summary Statistics

RGB staff developed operational definitions of the summary variables. However, since the I&E information is subject to strict standards of confidentiality, the Finance Department shouldered the responsibility for ensuring the accuracy and completeness of the data. Finance staff located the I&E forms for the 500 buildings, checked the forms, entered the data, and produced computer printouts of the summary statistics for each cell.

RGB staff reviewed the data carefully, weighted and aggregated the summary statistics to produce citywide estimates of rents, expenses, income, and the O&M ratio. The weight assigned to each cell was equivalent to the citywide share of all stabilized units. Weights were derived from the 1987 Housing and Vacancy Survey (HVS).

Operating & Maintenance Costs

Operating and Maintenance Costs

The chart on the next page shows average O&M expenses for all stabilized units and for the Pre '47 and Post '46 categories. In addition to the figures from this year's I&E study, we have also included last year's I&E data adjusted upward by the PIOC and 1982 Expenditure Study figures (also adjusted upward by the PIOC). The adjustments have been made in order to allow some comparisons between the different sources of data.

The most recent data is for buildings filing I&E statements by September 1990. Although most of the buildings file financial statements for calendar '89, some have later fiscal years. As a result, the approximate average O&M expense is for Fall '89.

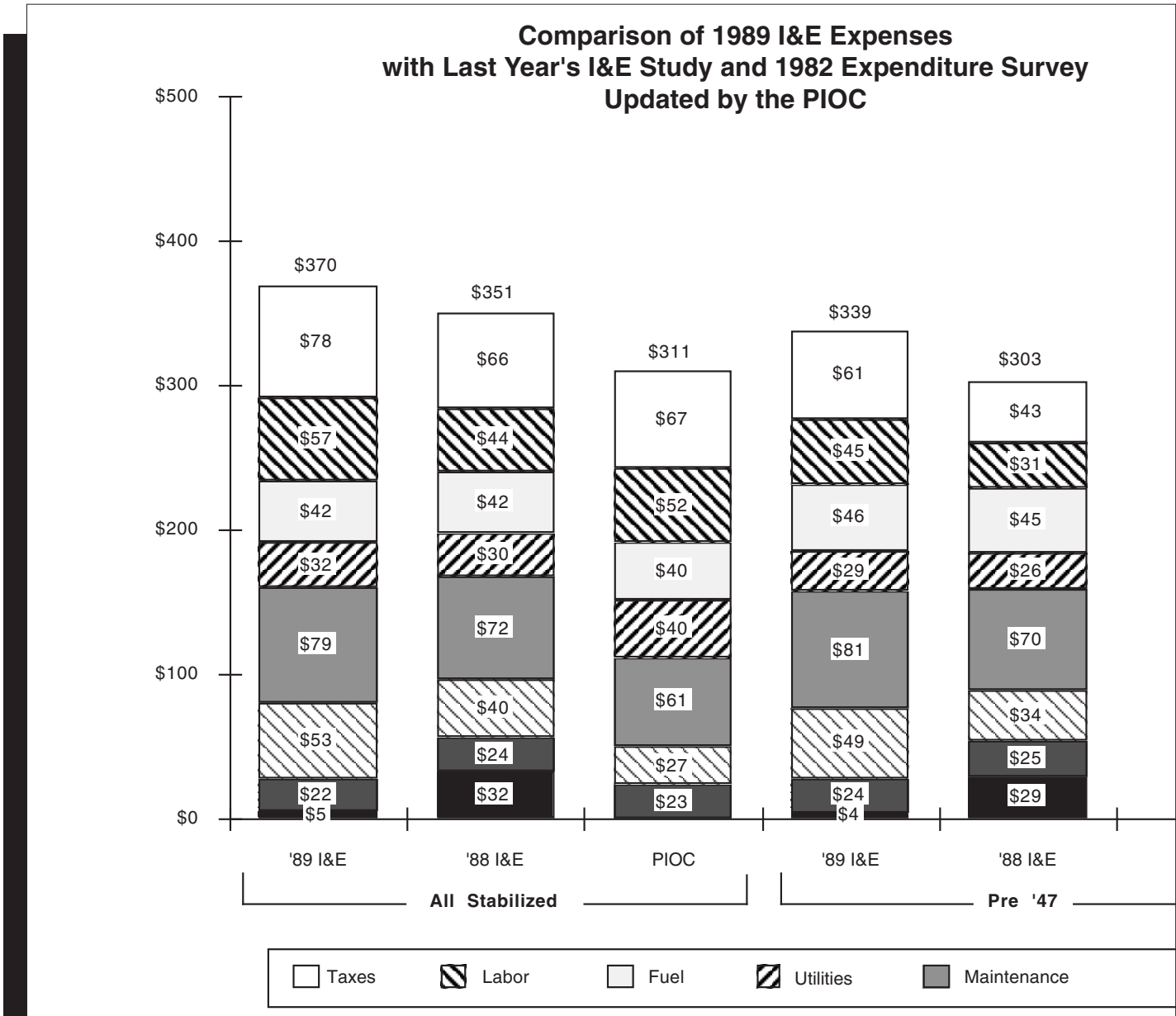
It is tempting, given the absence of longitudinal data, to try to calculate a percentage change using last year's average O&M figure and this year's. **This should not be done**. Although the samples from both years were chosen with the same procedure, the sample sizes are relatively small, with a resulting large standard error. In addition, since the study's methodology has differed from year to year it is impossible to compute a reliable standard error for the year-to-year change. These issues are discussed below.

Overall I&E is $370, or about $19 higher than last year's I&E figure (i.e. after adjusting last year's I&E numbers by the increase in the PIOC. Compare the first two bars on the chart). The average for Pre '47 buildings is substantially higher than expected while the newer Post '46 buildings have lower than anticipated costs. There are basically three possible reasons for the discrepancy between this year's average O&M cost and last years:

1. Changes in methodology
2. Sample variation
3. The possibility that O&M increases were higher than those recorded by the PIOC

As noted in an earlier section of this report, significant changes in methodology were made in this year's study. The review of miscellaneous expenses has depressed overall O&M levels, although the effect is not large. The assessors disallowed expenses in only 46 of the 500 buildings; the total amount disallowed amounted to slightly more than 1% of aggregate expenses.

The decision to exclude buildings with short accounting periods or no rental income from the sample has had the opposite effect (i.e. average O&M expenses are boosted). Given the opposite impacts of the two methodological changes, it is



Source: Income and Expense Filings, 1982 Expenditure Survey, 1989 and 1990 Price Indices.

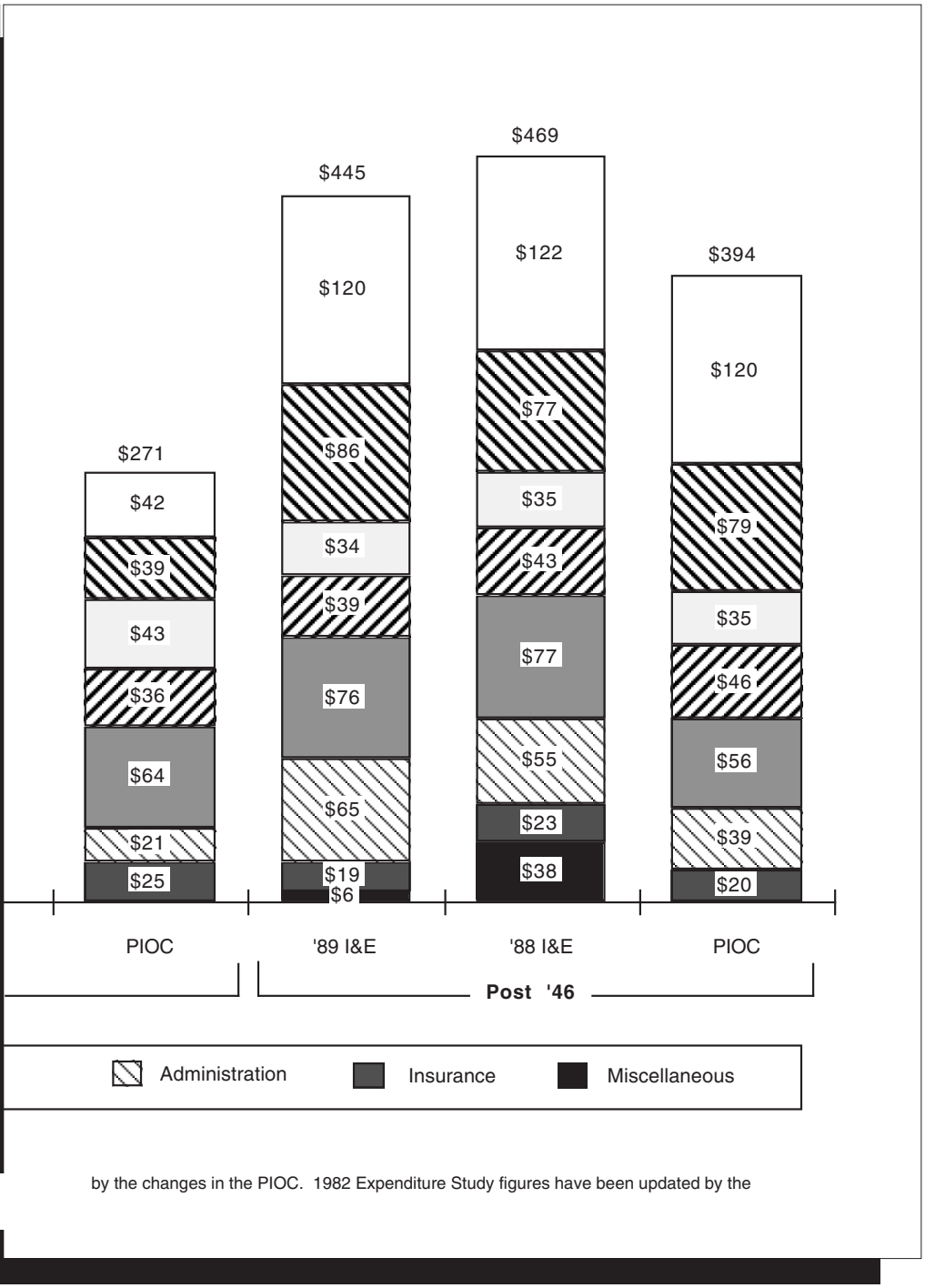
Note: 1988 I&E figures have been altered to remove last year's commercial unit adjustment and to increase all components PIOC to Fall '89. Totals may not add due to rounding.

hard to gauge whether the net effect is higher or lower average O&M.

The procedure for choosing this year's sample has not changed; however, this study does use a different sample. Sample variation this year may have resulted in average costs which are higher or lower than the true mean. If last year's figure was significantly lower than the true mean and this year's was significantly higher, the difference between the two years would be exaggerated.

The failure of the PIOC to completely capture cost increases is another possibility for the difference between this year's costs and last year's. An increase in the PIOC of 13% (versus the 9% assumed here) would account for the entire difference. Without the I&E longitudinal data, though, it is difficult to evaluate this theory.

And which of these is the most likely possibility? It appears that sample variation probably accounts for most, but not all, of the difference between this year's estimate of O&M and last year's. If methodological factors had been of uppermost importance (i.e. the short accounting period) one might have expected to see an increase in ALL of the cost components, rather than several. If underestimation of costs by the PIOC were the primary culprit, O&M costs would have increased at a faster rate than income. However, as we shall see in a later section of this report, income rose as much as costs. The implication is that the current I&E study probably includes a somewhat different class of buildings than last year's study due to sample variation.



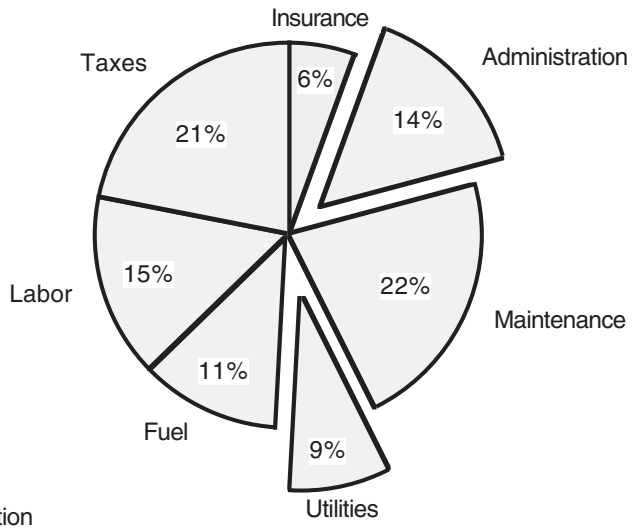
by the changes in the PIOC. 1982 Expenditure Study figures have been updated by the

Although overall cost levels among the three studies vary significantly, the weight of each component (e.g. taxes, labor) is relatively stable from year to year. The differences between the PIOC and the two I&E studies are not great, but two components — utilities and administrative costs — do show differences which are greater than expected.

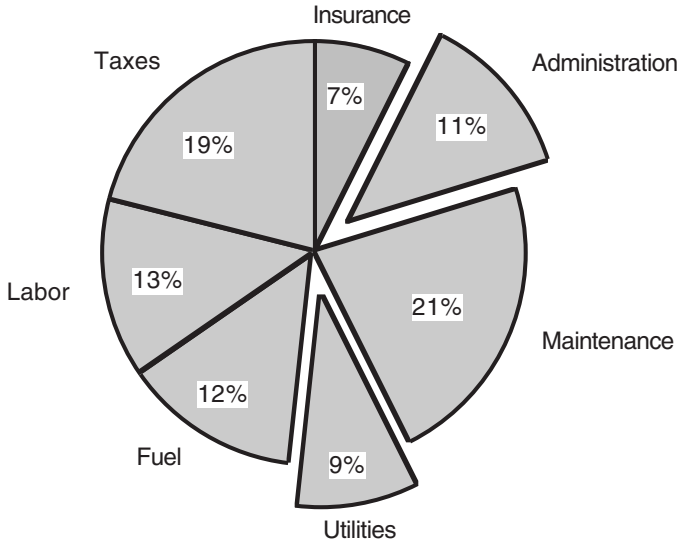
Administrative costs accounted for 14% of all costs in this year's study, 12% last year, and only 9% of costs in the PIOC. According to Finance Department staff a large proportion of miscellaneous expenses were reclassified as administrative expenses. Utilities costs, on the other hand, were a much smaller proportion

Distribution of O&M Expenses

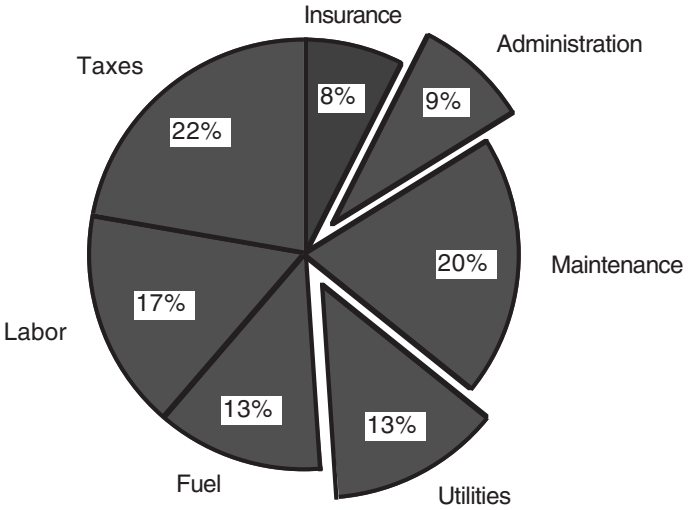
1989 I&E Study



1988 I&E Study Updated by the PIOC



1982 Expenditure Survey Updated by the PIOC



Sources: Income and Expense Filings, 1982 Expenditure Survey, 1989 and 1990 Price Indices.

of total costs in the I&E study (9%) than in the PIOC (13%). This is somewhat surprising given the large increases in water & sewer charges in recent years.

O&M Costs for Buildings Without Commercial Space

Average O&M expenses in completely residential buildings ($363) are not substantially different from the average for all buildings ($370). The relatively minor difference between the two figures can be attributed to the small percentage of buildings with commercial units (about one-sixth) and the tendency for commercial units to be located in large buildings (i.e. 100+ units), which play a comparatively small role in the computation of overall average O&M cost (i.e. large buildings contain only about 20% of stabilized units).

Clearly, buildings with commercial units have higher average O&M expenses than buildings without commercial units. How much higher we cannot say. A sample of less than 100 buildings is simply not adequate to compute a reliable average O&M figure for buildings with commercial units.

As expected, taxes are slightly lower in the all residential group. Administration and labor costs are also somewhat lower, and in fact, actually account for more of the difference in costs than taxes.

Income

Rent and Income

The definitions of rent and income remain unchanged from last year's study. Rent is defined as payments collected from tenants plus rent subsidies (e.g. Section 8) and SCRIE. The average rent reported here is the average for all units (controlled and stabilized) in stabilized buildings, NOT the average for all stabilized units. One would expect the mean I&E rent per unit here to be somewhat less than the average registered rent since our sample includes some controlled units and collection losses. And, as we shall see, this is the case.

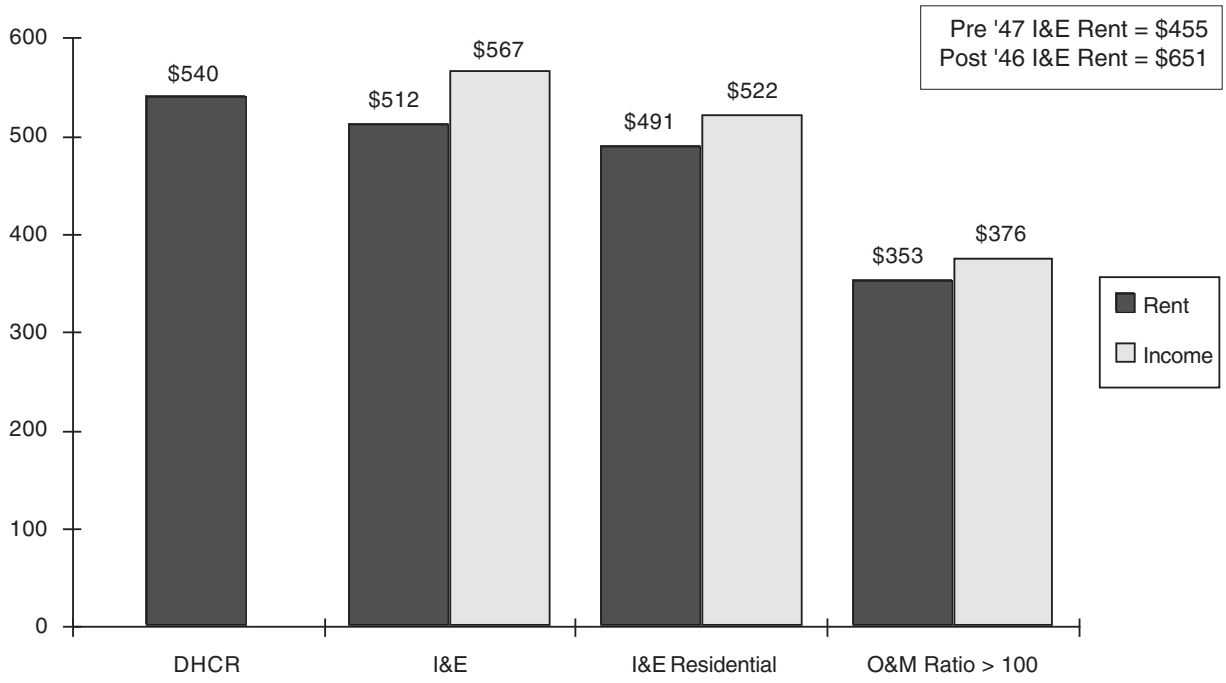
Income is defined as apartment rent plus all other sources of revenue, such as rent from offices, retail space, garages/parking, and industrial space plus other sources of income such as laundry, the sale of utilities, etc. This year's sample included some 360 commercial units, slightly more than the 320 found last year.

On average, the ratio of commercial units per building is about 3/4 unit. However, only about one-sixth of the buildings actually contain commercial units. Even though more commercial units were reported this year than last, the proportion of total income derived from commercial sources is the same - about 10%.

Average rent per unit in this year's study was $512, or about 13% higher than last year. Average income was $567, also about 13% higher than the previous year (see chart next page). As noted in an earlier section of this study, O&M cost, rent, and income all increased approximately 13-14% from last year. Part of the increase is certainly a reflection of higher rents and O&M expenses, but a great deal is probably an artifact of the buildings in the current sample. Other factors (e.g. changes in methodology) may have also affected the results.

The mean DHCR registered rent for Fall '89 is $540, an increase of about 6.1% over last year. Manhattan rents

Rent & Income Data from the 1989 Income and Expense Study and the Division of Housing & Community Renewal



Source: Income & Expense Filings, Division of Housing & Community Renewal.

Note: DHCR rent is the average of April 1989 and April 1990 for all stabilized units. All I&E figures are mean average amounts. I&E Residential is the sub-sample of buildings without commercial units.

increased by only 5% while the other boroughs ranged from 6.6% (Bronx) to 7.4% (Brooklyn). It is interesting to note that the rent increase calculated in "Table 14" (i.e. the RGB rent index) for the period was much the same as the all-borough DHCR increase, approximately 6.4%. I&E rent as a proportion of DHCR rent is 95% in this study, versus 89% last year.

As expected, the sub-sample consisting of buildings without commercial units has lower average apartment rent and income. The difference between average income for all units ($567) and for units in entirely residential buildings ($522) is $45. About half of the $45 is due to the income generated from the commercial units while the other half is from higher rent. It appears that buildings in the proximity of commercial units command higher rents.

O&M Ratio

O&M to Rent/Income Ratios

After spending so much time discussing the differences between last year's I&E study and the current effort, it is refreshing to find at least one similarity. The O&M to rent ratio and the O&M to income ratio are the same as last year - .72 and .65 respectively. In addition, the ratios for the Pre '47 and Post '46 sectors are not sig-nificantly different from last year.

O&M to Rent and O&M to Gross Income Ratios

	O&M to Rent	O&M to Gross Income
All Stabilized	.72	.65
Pre '47	.75	.67
Post '46	.68	.62
All (Residential)	.74	.70

Source: Income and Expense filings.

The stability of the O&M ratios across time and in two very different samples gives us some confidence in the figures. Of course the result does not necessarily validate these O&M to rent/income ratios as the most appropriate figures. For a full discussion of all aspects of the O&M to rent ratio the reader should refer to *Rent Stabilized Housing in New York City: A Summary of Rent Guidelines Board Research, 1990.*

O&M to Income Ratio Over 100%

In last year's I&E study we found that 46 buildings, or about 9% of the sample, had O&M to income ratios in excess of 100%. This year, despite changes in study methodology which were intended to eliminate inappropriate expenses from the miscellaneous category, the number (50) and percentage of buildings (10%) with O&M to income ratios over 100% is about the same as last year.

Insofar as it is possible to compare this year's buildings with last year's, their characteristics are similar in many respects. In both years Pre '47 buildings accounted for about three-fourths of the buildings and medium size structures (i.e. 20-99 units) were two-thirds of the total. However, there has been one significant change. Last year nearly half of the buildings were located in Manhattan; the percentage has fallen to slightly less than a third this time around.

By requesting a separate "cell" printout for this group of buildings from the Finance Department we have been able to dig a little deeper into building and financial characteristics this year. As mentioned previously, most of the buildings are in the 20-99 unit category. The average size building contains 45 units, compared to 83 units per building for the sample as a whole. In the cell with the largest number of high ratio buildings (i.e. nine buildings in the Manhattan, Pre '47, 20-99 group) the average building size is 38 units. Apparently, buildings with O&M to income ratios over 100% are both older and smaller in size than average.

It is also apparent that the older high-ratio buildings have substantially higher O&M to income ratios than the newer Post '46 buildings. Of the Post '46 buildings, none has an O&M to income ratio higher than 119%. All of the 17 buildings with ratios of 120% or more are in the Pre '47 group, including five with ratios of 200% or more.

In last year's report we acknowledged that the form of the data made it "impossible to discern whether lower than average rents or higher than average expenses are the problem" for O&M to income ratios over 100%. It now appears that BOTH low rents and high expenses may play a role.

The average rent in high ratio buildings is only $353, or 69% of the total sample average of $512. Only four of the cells in the entire sample have rents at or below $353; three of these are in the 11-19 unit category.

The owners of these buildings do gain some additional revenue from the rental of commercial space and from sources such as laundry, concessions, etc. However, high

ratio buildings are considerably less likely to contain commercial units than the sample as a whole. Only four of the 50 buildings (8%) included commercial units compared to 16% for all buildings. As a result, the high ratio buildings derived 94% of total income from residential rent versus 90% for all buildings.

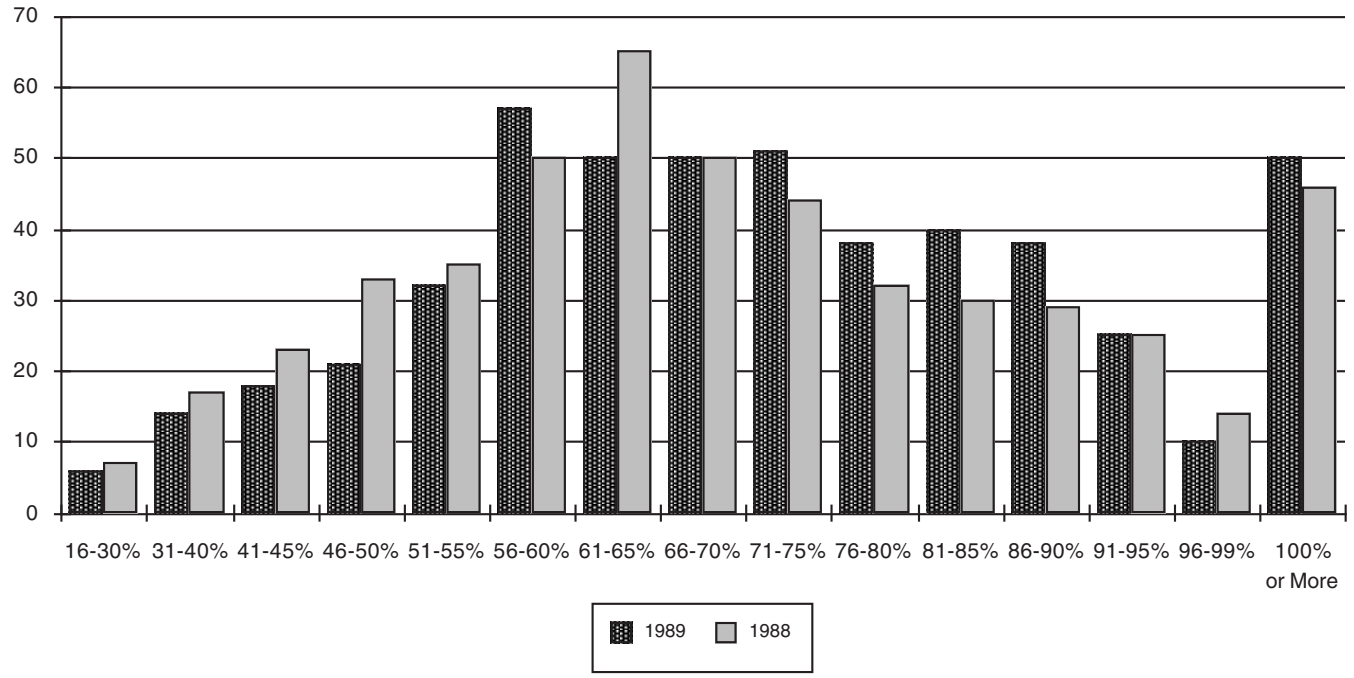
In addition to lower than average rents and income, our "average" high ratio building also has O&M expenses which substantially exceed the norm - $457 vs. the overall average of $370. All but one of the components (insurance) are significantly higher than average and maintenance is $56 higher than the average for all units (i.e. $135 vs. $79). In fact, the maintenance component accounts for nearly two-thirds of the difference between the high-ratio units and the overall sample.

The data on component costs are rather difficult to interpret. In fact, an argument might be made that the figures should not be compared to the overall sample. The Finance Department's confidentiality restrictions made it impossible to weight the data from the high-ratio subsample as the overall sample has been weighted. As a result, comparisons are rough - at best.

A careful look at the data also highlights some incongruities which are not easily explained. For instance, why are taxes for high ratio buildings (i.e. buildings which are losing money) so high? Why are maintenance expenses much higher than average?

It may be possible to address some of these questions (at least obliquely) if the Finance Department

Distribution of O&M-to-Gross Income Ratios for I&E Study Sample of 500 Buildings



Source: Income and Expense Filings.

An Addendem to the Owner Income and Expense Study

The RGB staff has long maintained that data verification problems have limited our ability to provide conclusive answers to income and expense issues. We are limited to constructing comparisons of imperfect information in the hopes that high levels of corroboration among results drawn from various sources may enhance the credibility of our findings. By taking the logical extensions of the information available to us and comparing it with national trends we may, at best, determine if our findings are "in the ball park." When our results are greatly at odds with other accepted data sources we can say little except that better information is needed. The impact of the Board's decisions is too critical to allow hard conclusions to be drawn from soft data. Yet, if we were limited to providing only verified data our examination of the issues would be severely truncated.

This analysis, presented to the Board after the I&E Study, was intended to stimulate critical thinking about the data by examining the following questions:

☞If the 1970 Bureau of Labor Statistics (BLS) expenditure study of operating costs, the 1970 Decennial census data on rents and the 1989 Income and Expense data are all accurate, what does that suggest about the economic impact of rent stabilization over time?

☞Is the data consistent with what we might expect to find given national rent and cost of living trends?

First, the fact that the 1970 data showing an average operating cost of $110 and a rent figure of $203 concerns the post '46 housing stock must be highlighted. This stock represents only about a third of the units regulated by the Board. Because it is the only stock which has remained under stabilization since 1969, it provides the best measure of the impact of the Board's decisions over time. The remaining two thirds of the stabilized stock, having once been under rent control, does not appear to have lost much ground in terms of net operating incomes under stabilization. Indeed the pre'47 stock may have gained ground as most of these units experienced market rents upon entering the stabilized universe. (A small portion of formerly controlled units experienced limited rent increases under the Fair Market Rent appeals process.) With limited data on initial O&M to rent ratios for pre'47 units, however, little can be said about changes in net operating returns for this group.

Although the post '46 stock provides the best control group to measure the impact of the Board's orders, it too has limitations. A large portion of this stock was converted to cooperatives in the 1980's. Because of this, the average O&M to rent ratio of the unconverted post'46 stock may be expected to rise independent of the influence of the Board's orders. This would be consistent with the notion that the "better" buildings with higher operating returns underwent conversion, leaving the less profitable properties behind. Isolating the effects of co-op conversions on the average O&M to rent ratio is virtually impossible given present data sources. One clearly would not expect this exodus of buildings to fully account for an increase in the O&M to rent ratio from .55 to .72. The effect of conversions is, however, an important limitation on the "control group."

Editor's Note: The current comparative O&M to rent ratio for the Post '46 universe is .68. See table on page 41.

If access could be gained to the individual building information used in the 1970 BLS study, and we could reconstruct a 1970 O&M to rent ratio for those buildings that remain stabilized, and examine their I&E profiles today, we would have a much better control group to work with. This possibility was discussed last year with BLS. Confidentiality rules would prevent access to the 1970 data. Since the federal government no longer allows BLS to perform contract work for municipalities, it appears that this option will not be available to the Board.

Other qualifications on comparing the .55 O&M to rent ratio to the .72 ratio and the attendant estimate of changes in inflation adjusted net operating income include:

- **the inability to isolate the influence of normal market forces on the O&M to rent ratio over time.** Declining real incomes of the tenant population over the past two decades, by changing effective demand, may have significantly affected net operating returns independent of the influence of rent regulation. Other factors, such as a rising average building age may influence the average O&M to rent ratio.

- **the present inability to verify tax filings used to construct the .72 ratio.** In the absence of audits it is difficult to eliminate the possibility of inaccuracies in the expense data.

- **the inability to quantify the impact of legally mandated and cost related changes in the landlord/tenant relationship.** Since 1969 significant changes have occurred in the public regulation of landlord tenant relations in New York City. Independent of fees and other governmentally imposed charges, changes in the court system, code enforcement, the addition of the warranty of habitability and other modifications of the legal duties owed by owners to tenants may have impacted on net operating incomes. Even in the absence of rent regulation such costs may not have been fully translated into rent increases.

- **the inability to gauge the effects of changes in ownership and management practices.** A number of people have suggested that ownership of rental properties in New York City has become increasingly concentrated over the past two decades. It may well be that in 1970 more small owners supplied labor for the maintenance and administration of rental buildings. If these buildings now use hired labor for maintenance and management firms for administration, one would expect recorded expenses to rise relative to rents. Such an increase in the O&M to rent ratio would be a function of ownership and management changes - not rent regulation. We presently have no data on changes in ownership and management practices.

This list is not intended to be comprehensive, but is simply an attempt to raise a note of caution about drawing hard conclusions on the influence of the Board's orders on net operating income over time.

Another indicator of how well owners have done might include a comparison of changes in the market value of buildings from 1970 through 1990 in inflation adjusted dollars. If buildings have appreciated at a faster rate than costs in general, one might conclude that owners have prospered under the stabilization system. It seems reasonable to assume that investors in rental properties generally know the value of what they are purchasing. Aside from not having data on building appreciation readily available, two factors make this analysis problematic. First, many buildings appreciated because of

co-op potential. Thus, a rise in value may have had little to do with the profitability of the property as a rental enterprise. Second, the general optimism in the real estate market of the 1980's may have had some spillover impact on the perceived value of all New York properties - regardless of the revenue they may have actually been generating. Rent regulation may have retarded speculative and inflationary investments in many rental properties, but it is hard to imagine that the real estate boom had no effect on the market value of some of these buildings.*

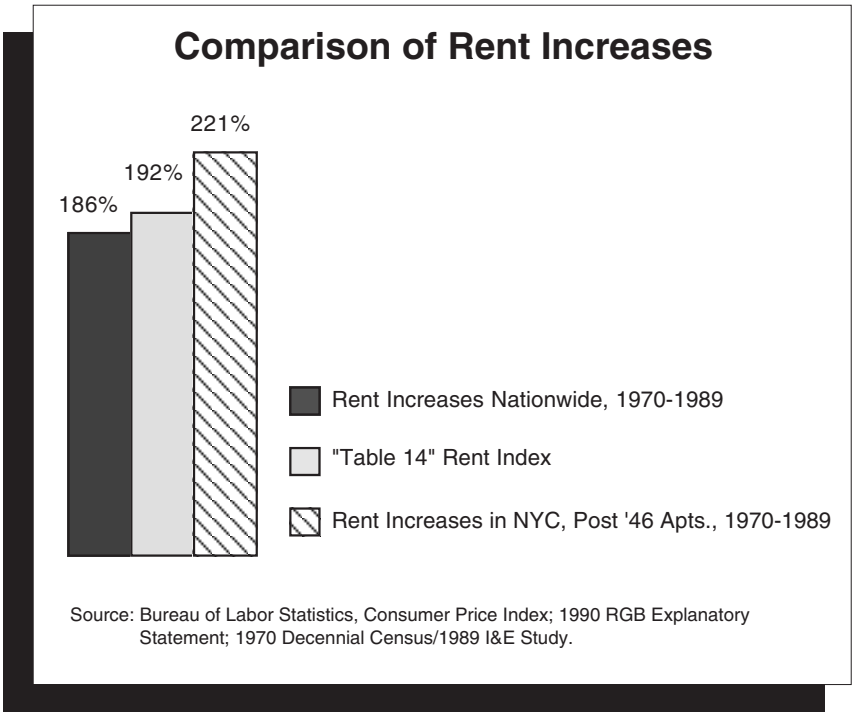
Now, having stated the caveats, we can look at what the present data appear to suggest.

*The most interesting question is whether, and to what extent, stabilization played a role in dampening speculative practices and thus helped reduce the magnitude of the recent boom/bust cycle - an issue which has gotten virtually no attention so far. Unwarranted and speculative appreciation of property values is not unlike speculative stock inflation in terms of its implications for overall economic stability. It is interesting to note that the Rent Stabilization system was initially an industry self regulation system modeled, in part, after the National Association of Securities Dealers overseen by the Securities and Exchange Commission - a system designed to prevent the kind of speculative practices in securities which precipitated the crash of 1929 and the Great Depression.

Rents

The graph indicates the change in rents from 1970 through 1989 suggested by three data sources - national CPI rent index, the rent index contained in "Table 14," and the 1989 I&E data/1970 census data. Only the last column reflects a comparison of actual rent data gathered from the post '46 stabilized universe. The 221% rise is premised upon the comparability and accuracy of the 1970 mean rent figure of $203 and the 1989 I&E (post '46) rent figure of $651. The methodology underlying the development of these two rent figures has been discussed in prior reports to the Board. If anything, the graph illustrates that stabilized rents in New York City have risen somewhat faster than the (predominantly market) rents nationwide. The national overall CPI rose 225% during the same period.

Assuming the accuracy of the 1970 expense figure of $110 and the rent estimate of $203, we can also assume a per unit average net operating income of $93 in that year. In inflation adjusted dollars that income would have been worth approximately $302 in September of 1989. Net operating income for 1989 as derived from the post '46 I&E data was $206, or 68% of the estimated inflation adjusted value of NOI for post'46 buildings received in 1970. It is important to note, however, that these figures do not indicate true net operating income because commercial income has been excluded. They are simply



comparisons of the differences between estimates of mean residential rents and mean costs per residential unit. Also, collection and vacancy losses are implicitly included in the 1989 I&E figures, whereas, they are not included in the 1970 estimate of mean rents. This should have the effect of causing a slight overestimation of 1970 NOI leaving a slight underestimation of 1989 NOI in inflation adjusted dollars. In short, if all of the above noted estimates are generally accurate, the inflation adjusted value of net operating income derived from residential units in post '46 rent stabilized properties is roughly 68% of what it was in 1970.

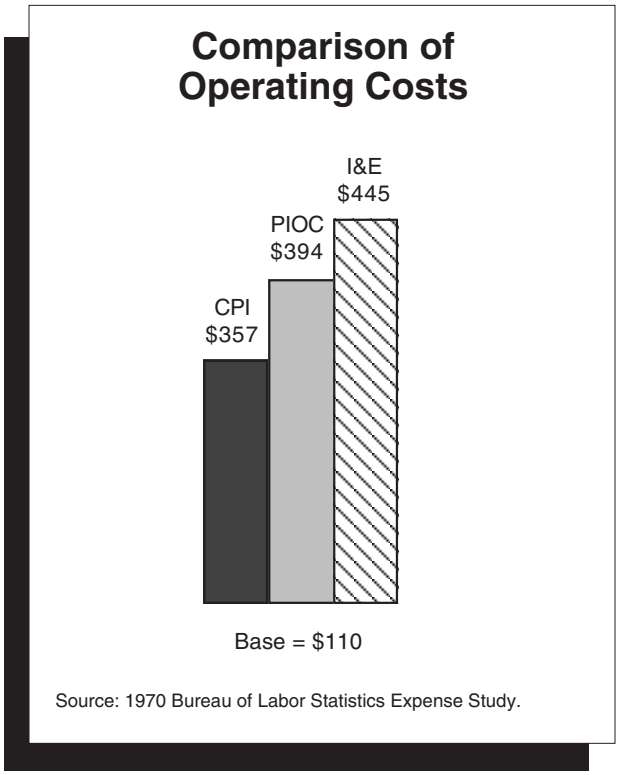
Why do net operating incomes appear to have fallen while rents appear to have risen at a faster rate than rents nationwide?

Operating Costs

The answer, according to the information available to us, appears to be in dramatic increases in locally experienced operating costs. If increases in operating costs had kept pace with inflation generally, the average operating cost per unit in the post '46 stock would have risen to approximately $357 by 1989. According to the PIOC and the 1982 expenditure survey, that cost should have been $394. According to the I&E data it was $445. If the PIOC cost data and the I&E rent data were correct, net operating income would be worth 85% of its 1970 value; if the CPI is a better indicator of cost changes - which it proved to be in the 1970 to 1982 period - NOI would be worth 97% of its 1970 value.

In order to isolate where these extraordinary cost increases appear to have taken place the table on the following page lists the estimated cost changes by component and source. The I&E factors listed at the far right are simply the ratios of the estimated change in the cost component measured by the BLS and I&E studies over the cost increase that would have occurred had the increase paralleled inflation. For taxes, a recorded increase of $70 over an increase reflecting the general rate of inflation of $113 results in a ratio of .62. Of course, one wouldn't expect all components to perfectly parallel inflation; the factors simply indicate how extraordinary some of these increases appear to have been.

As shown in the table, average operating costs in New York City appear to have risen 36% faster than consumer prices nationwide. This increase was true of all operating costs except taxes which actually fell relative to the CPI. Again, this assumes that the I&E data, the 1970 BLS expenditure data and the rents estimated from the 1970 decennial census are accurate and that the universe of buildings reviewed is comparable. Doubts about this conclusion can be raised if it is observed that national fuel and utilities costs rose approximately 270% during this period while the I&E and BLS data appears to indicate a 421% increase for the New York market. Also, nationwide maintenance and repairs rose approximately 229% during this period while locally they rose 375% according to the data.



Comparison of Average Operating Costs

	BLS Expense Survey 1970	CPI Adjusted Costs to 1989	PIOC Adjusted to 1989	I&E Data 1989	I&E/CPI Factor
Taxes	$50	$163	$120	$120	.62
Labor	$18	$58	$79	$86	1.70
Fuel &Utilities	$14	$45	$81	$73	1.90
Maintenance, Repair & Contarctor Services	$16	$52	$56	$76	1.67
Administration	$9	$29	$39	$65	2.80
Insurance	$3	$10	$20	$19	2.28
Other Misc.	NA	NA	NA	$6	NA
OVERALL	**$110**	**$357**	**$395**	**$445**	**1.36**

Source: 1970 Expenditure Study, Income and Expense Filings, and the Consumer Price Index.

Note: Figures are rounded to the nearest dollar. The time periods measured by all data sources should be comparable within one year.

Despite possible comparability problems and minor variations in the time periods measured, there is no immediately apparent reason why the local market for these items should be so significantly different from the national market.

As noted in the presentation, these observations are only logical extensions of several data sources. If true, they demonstrate that any losses which may have been experienced by owners of rent stabilized properties are largely the product of extraordinary levels of local inflation in operating costs coupled with rent increases which, while higher than national averages, have been less pronounced than operating cost increases. At the same time, the notable lack of harmony in national and local cost trends could easily lead one to suspect the accuracy of the local data - which is not as scientifically well developed as the national CPI. The need for targeted and verifiable data sources is, therefore, amplified.

Conclusion

Accompanied by a few quickly sketched graphs, this brief commentary which followed the March 19th I&E report was simply intended to stimulate a bit of critical thinking about the information made available through the I&E data. To characterize that presentation as a substantive staff report would be misleading. The complexity of the issues confronting the Board obligates the staff to assist in the development of an open and informed dialogue with tenant and industry leaders; to find and assimilate the best information we can and to highlight those areas where questions remain. ❑

Energy Efficiency in Rent Stabilized Buildings

According to the 1987 Housing and Vacancy Survey approximately 87% of rent stabilized buildings are heated with fuel oil. Only 1.2% of stabilized tenants pay their fuel bills separately. According to the annual Price Index of Operating Costs 25% of apartments are heated with #2 fuel oil, 22% use #4 and 53% use #6. Utilizing a range of energy usage targets developed by HPD's Division of Energy Conservation, adjusted by fuel oil type (by Frederic S. Goldner* who assisted with our analysis) and "normalized" for degree days, we were able to develop targeted levels of consumption by gallon for each fuel type. With price data obtained through the PIOC, staff was able to convert these usage targets into dollar amounts. The product of these efforts is a high and low target for fuel costs in energy efficient buildings for 1989. According to the calculations (see Appendix G), owners who operated efficiently should have experienced fuel costs which fell into a range of $464 to $503 in 1989.

Having established a desirable range of per unit expenditures for efficiently operated oil heated buildings (a range which should accommodate most buildings of all types and ages), the I&E data can be used to look at what owners actually spent in 1989.

The Income and Expense forms used by the Department of Finance have a separate category for fuel. While approximately 10% of owners heat their buildings with natural gas, it is unlikely that this would throw the cost averages off much. According to the I&E data owners of rent stabilized properties spent approximately $504 per unit on fuel in 1989. Had 1989 been a normal-degree-day year, these owners would have spent about $533 per unit. Since the targeted range of fuel expenditures calculated above is based upon a normal degree day year,it should be compared with this $533 estimate. In short, under normal weather conditions efficiently operated buildings should have cost between $464 and $502 per unit to operate in 1989. Yet, with normal weather owners would have actually spent approximately $533.

Consequently, on average,owners of oil heated rent stabilized buildings should be able to save anywhere between 6% to 13% on their heating bills if greater conservation efforts are made. System wide this would result in savings of some 24 to 56 million dollars per year. It is important to note that the energy targets used here should be achievable through "better maintenance and management procedures, and low cost retrofits" (See BEUTS report at p.31). They do not represent targets achievable only through highly expensive system replacements. Also, while the cost estimates here concern averages for the stabilized universe, variation in heating costs and energy management practices among buildings are quite large - as much as 600% from the least to the most efficient buildings according to the BEUTS report. Finally, the results of this analysis indicate a greater level of conservation in stabilized buildings than in the buildings reviewed in the BUET study, where average annual consumption per unit (865 gallons) greatly exceeded the desired target (600 gallons). It may well be that conservation related improvements subsidized by local J-51 tax abatements, Major Capital Improvement rent increases, low interest loans and depreciation on federal income taxes have caused significant improvements in the energy efficiency of stabilized buildings over the last decade. This analysis indicates, however, that conservation related ❑

*Frederic S. Goldner was the project manager of the Building Energy Use Tracking System developed by HPD's Office of Energy Conservation. This comprehensive review of energy management practices in New York City was the subject of a detailed report published in December of 1989. Staff would like to thank both Fred and Ashok Gupta from the Department of Telecommunications and Energy for their assistance with this analysis.

Tenant Income and Housing Affordability

Tenant Income

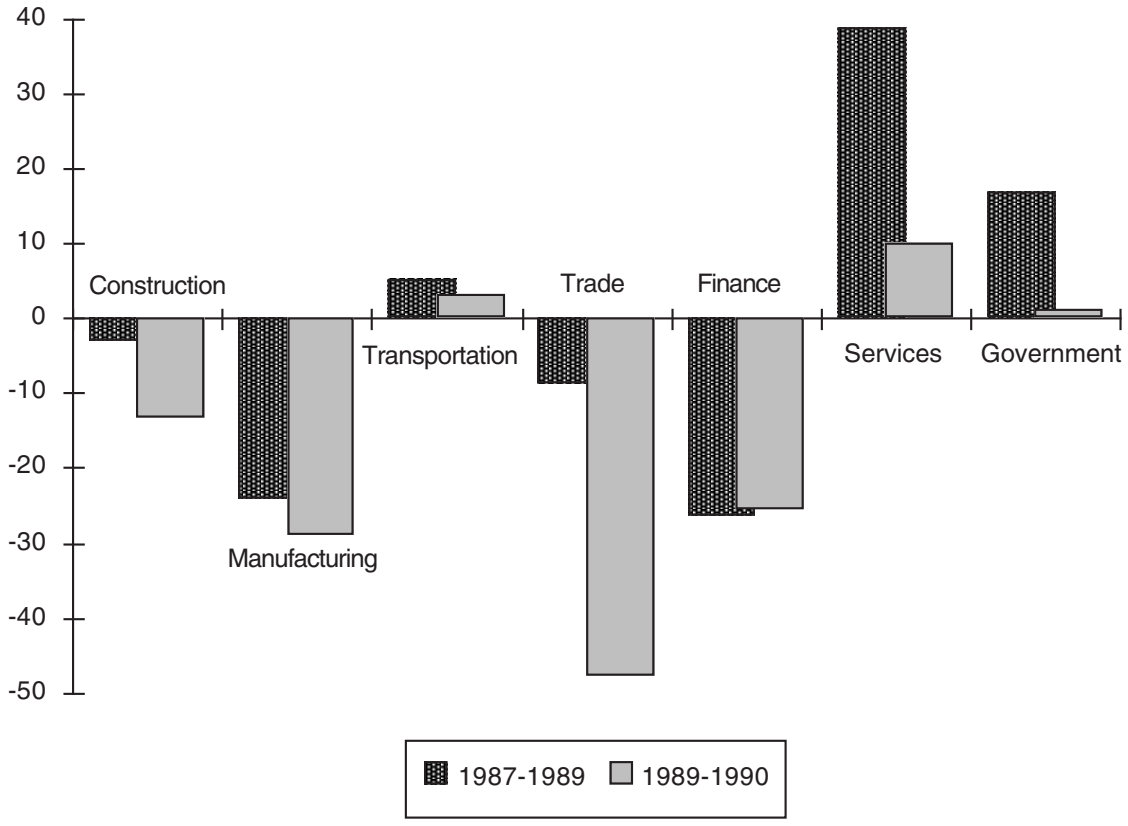
Job Growth and Unemployment

The slide that began in October 1987 on Wall Street has now reverberated throughout the city's economy, eliminating jobs in virtually all industries. As the recession worsens, thousands of New Yorkers are finding themselves unemployed. Between December, 1987 and December, 1989 less than 3,000 positions were lost in New York City. However, due to continuing weaknesses in the city's economy more than 100,000 jobs were lost from December, 1989 to December, 1990 with particularly high losses in the trade sector. In the first two months of 1991, the city lost another 74,400 jobs.

From 1987 to 1989 the service and government sectors sustained the city's economy. During that period these sectors combined added 56,000 jobs. The service sector was the largest contributor of jobs. In those two years almost 40,000 jobs were added. Job creation in the government sector was more modest. This is not a surprise given the fiscal problems experienced by both the state and the city.

The number of persons employed in private sector nonagricultural employment was significantly less in December, 1990 than it was in December,

Changes in Payroll Employment by Industry, 1987-89 and 1989-90



Source: U.S. Bureau of Labor Statistics.

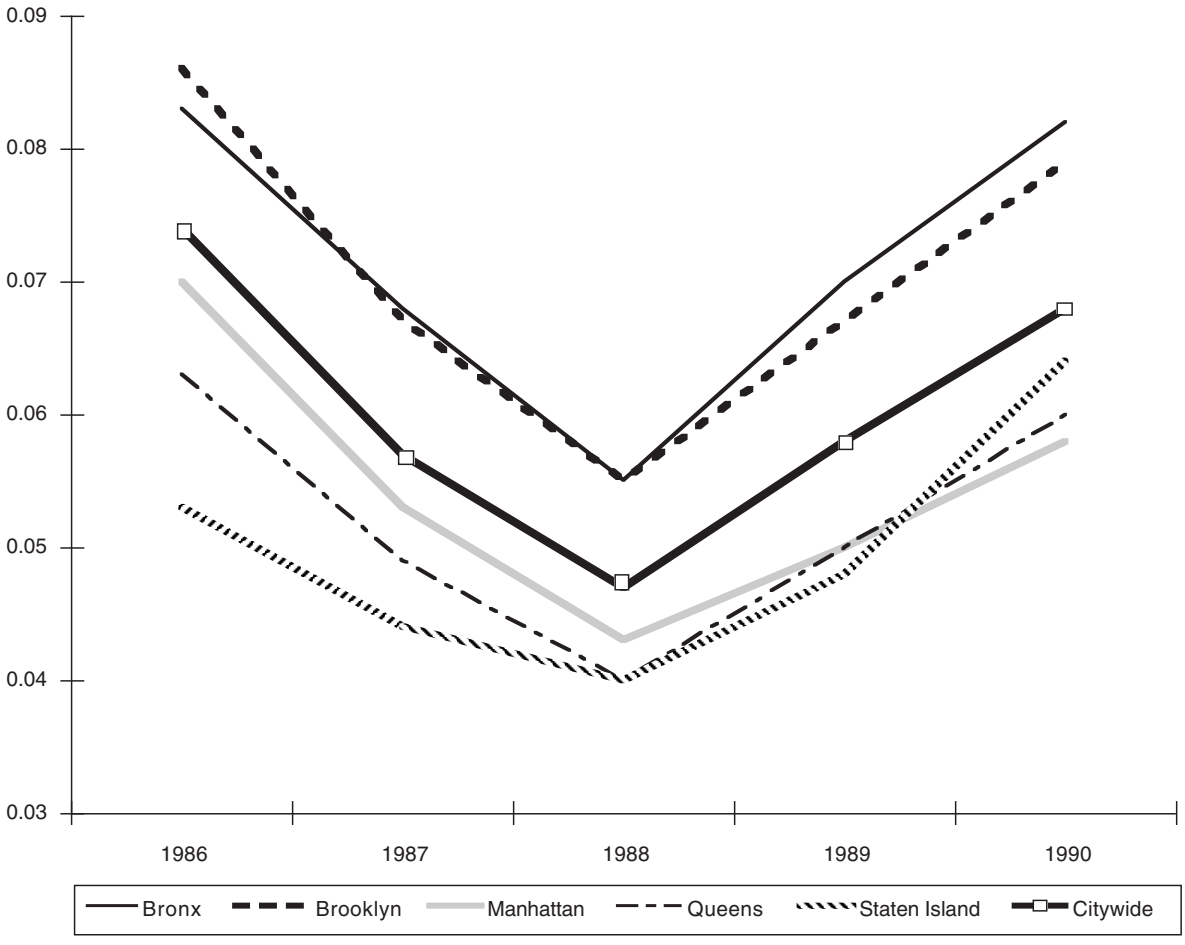
Note: The change in the number of jobs is computed from December of each year.

1989. In the last three years more than 110,000 positions were lost. The number of jobs in manufacturing, trade, and finance sectors continued to decline. In these industries employment was shaved by almost 10%.

Unfortunately, as the economy weakened throughout 1989 and 1990, increased employment in the service sector and government was unable to compensate for the employment losses in the other sectors. The net result was an increase in the unemployment rate.

In 1988 the unemployment rate was below 6% in each of the 5 boroughs. Starting in 1989, however, the employment market worsened, and the citywide unemployment rate rose from 4.7% in 1988 to 5.8% in 1989. Throughout 1990 and in early 1991 the recession continued to deepen. The increase was particularly striking in Staten Island where the unemployment rate went from 4.8% in 1989 to 6.4% in 1990. In 1990 Brooklyn's unemployment rate increased from below 7% to almost 8%, and the rate of joblessness was by far the worst in the Bronx where it was over 8% last year. The overall change for the city as a whole was one point (5.8% in 1989 to 6.8% in 1990). The city's average unemployment rate for the first three months of 1991 was 8.1%, the highest rate since 1984 (8.9%).

Average Annual Unemployment Rate for New York City and Boroughs, 1986-90



Source: NYS Department of Labor.

Income and the Cost of Living

Apart from the HVS data, it is very difficult to obtain other up-to-date income data pertaining only to rent stabilized tenants. Until 1992 when the next HVS will once again provide income data for those tenants, the RGB is forced to rely on less targeted measures of income. Although the data presented here includes income and earnings for all NYC residents and workers employed in the city, it will nevertheless provide an indication of the trends in income and the cost of living for tenants.

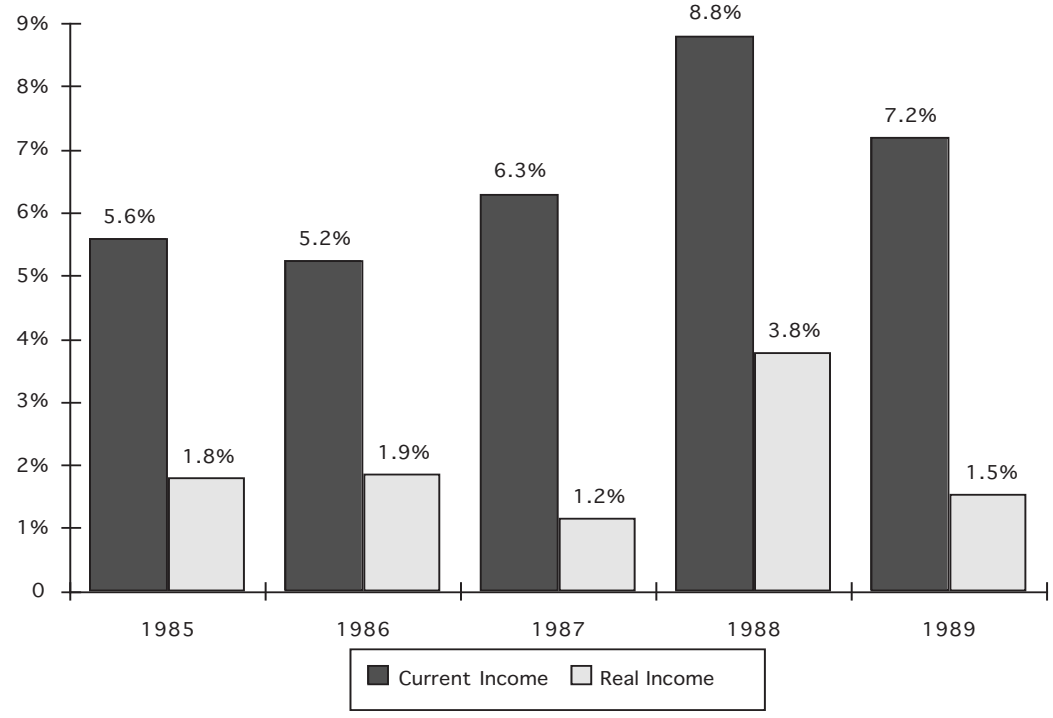
The chart shows the weighted average per capita income for NYC residents. In 1987 and 1988 changes in current and constant per capita income were very impressive. For those two years real income increased by 5%. However, the combination of low job creation and rising inflation was not beneficial for New York City's residents. In 1989 constant dollar average per capita income went up by only 1.5% from the previous year.

The gross average earnings for workers employed in NYC increased throughout the mid-'80s (see chart on next page). In 1987 and 1988 gross earnings increased by almost 17%. The total increase in real earnings for those 2 years was 5.9%. In 1988 alone gross earnings went up by 8.5% and by 3.5% in real terms.

As the decade came to an end and the bloom was off the city's economic expansion, there was a substantial decline in the rate of earnings increase for those employed in NYC. Most remarkably, after adjusting 1989 earnings for inflation, the percentage change was negative. In other words, prices increased at a faster rate than employees' earnings.

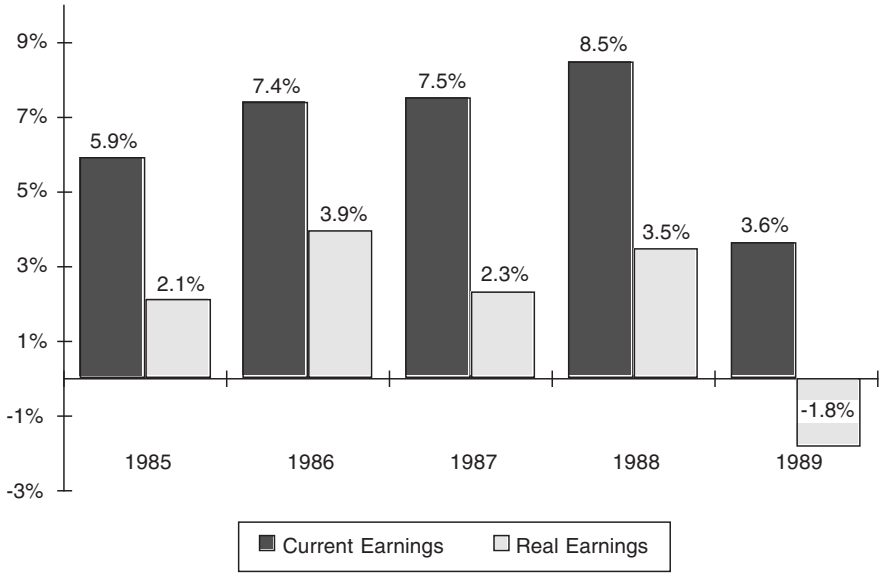
The Employment Cost Index (ECI) measures the rate of change in employee compensation costs incurred by an employer to purchase labor in the private sector. For the purposes of this report we only considered the wage and salary component of the

Weighted Average Change in Current and Real Income for NYC Residents, 1985-89



Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.

Changes in Current and Real Average Annual Earnings for Workers Employed in NYC, 1985-89



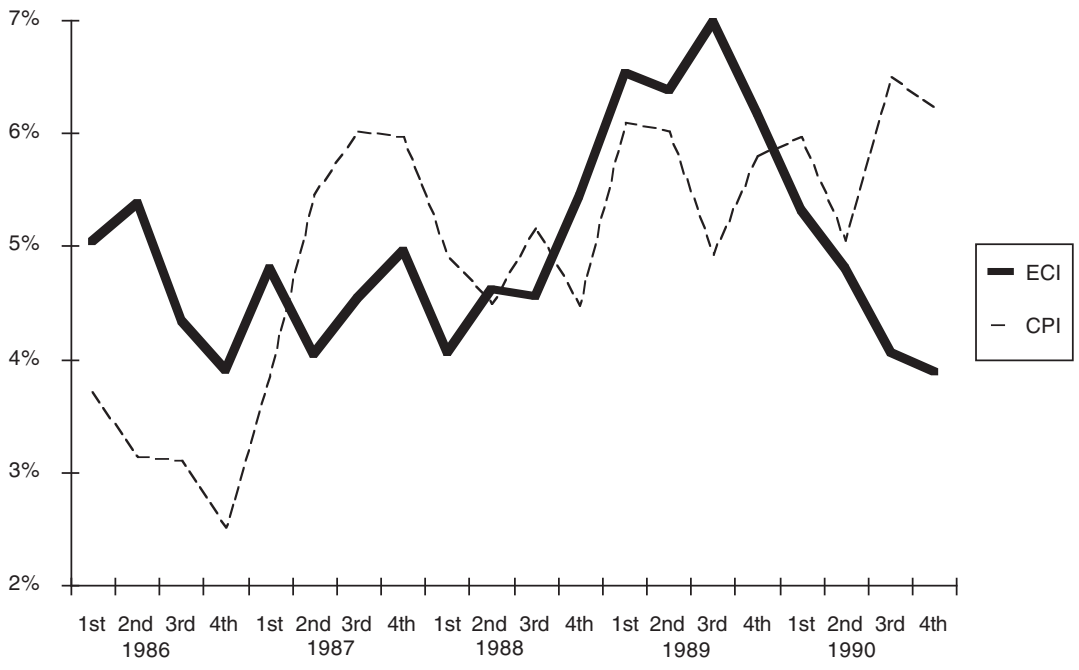
Source: NYS Department of Labor.

and salary component of the ECI and changes in inflation. Through 1988 and for most of 1989 percentage changes for both indexes were roughly the same. However, starting in the last quarter of 1989 there was a complete turn around. Although the rate of inflation had increased moderately, the ECI declined precipitously. Throughout 1990 employee compensation for this region did not keep pace with inflation. Given the current economic situation, it is not unrealistic to state that inflation-adjusted income may not improve in 1991.

ECI. That component covers private nonfarm employees in the Northeast region, excluding private household workers. The self-employed, owner-managers, unpaid family labor, and employees of the public sectors are excluded.

The chart shows the progress of the wage

Change in the Employment Cost Index for Private Industry and Change in the Consumer Price Index by Quarter, 1986-90, Northeast Region



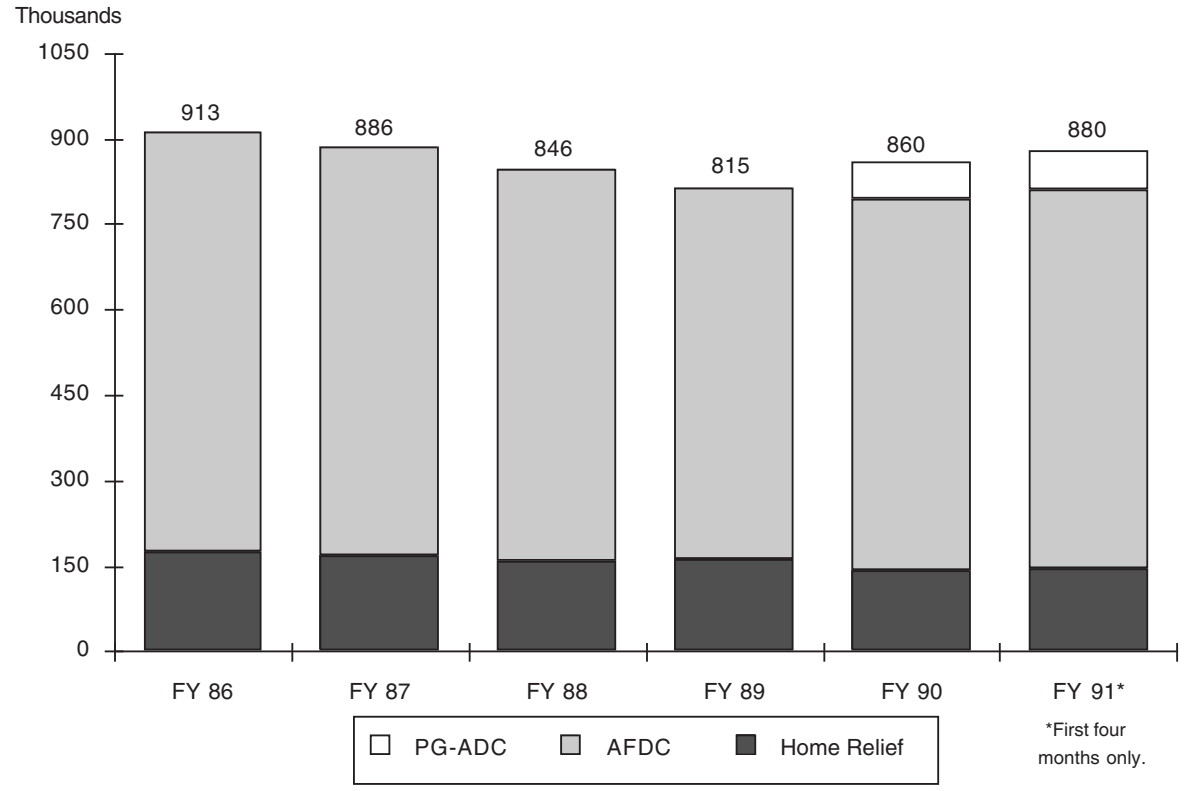
Source: Bureau of Labor Statistics.

Public Assistance

The number of public assistance recipients has been increasing since fiscal year 1989 (see chart). HRA believes that the trend is reflective of the state of the national economy. It cited the increase as a result of a slowing of the economy; the public assistance grant increased in January 1990, thereby expanding the number of people eligible for benefits; an influx of immigrants; an increase in clients enrolled in residential drug treatment programs who then became eligible for assistance; and the growing number of clients with AIDS or HIV-related illness who are served by HRA's Division of AIDS Services and are eligible for public assistance." *

In September 1989, the State created pre-determination grant ADC (PG-ADC) allowing potential AFDC clients to receive public assistance under a less stringent application process (i. e. without full documentation). These clients may eventually qualify for AFDC. Even though PG-ADC clients constituted only seven-and-a-half percent of the public assistance recipients, the number of PG-ADC clients contributed to a modest increase in public assistance benefits to families in fiscal year 1990. Moreover, during the first four months of fiscal year 1991, the combined number of PG-ADC and AFDC clients edged up slightly. On the other hand, from fiscal year 1989 to October 1990, there were no significant changes in the number of persons receiving home relief assistance.

Persons Receiving Public Assistance by Assistance Category, Fiscal Years 1986-91



Source: *Mayor's Management Report*, 1986 - 1991.

*The Mayor's Management Report, September 17, 1990, p. 399.

Housing Affordability

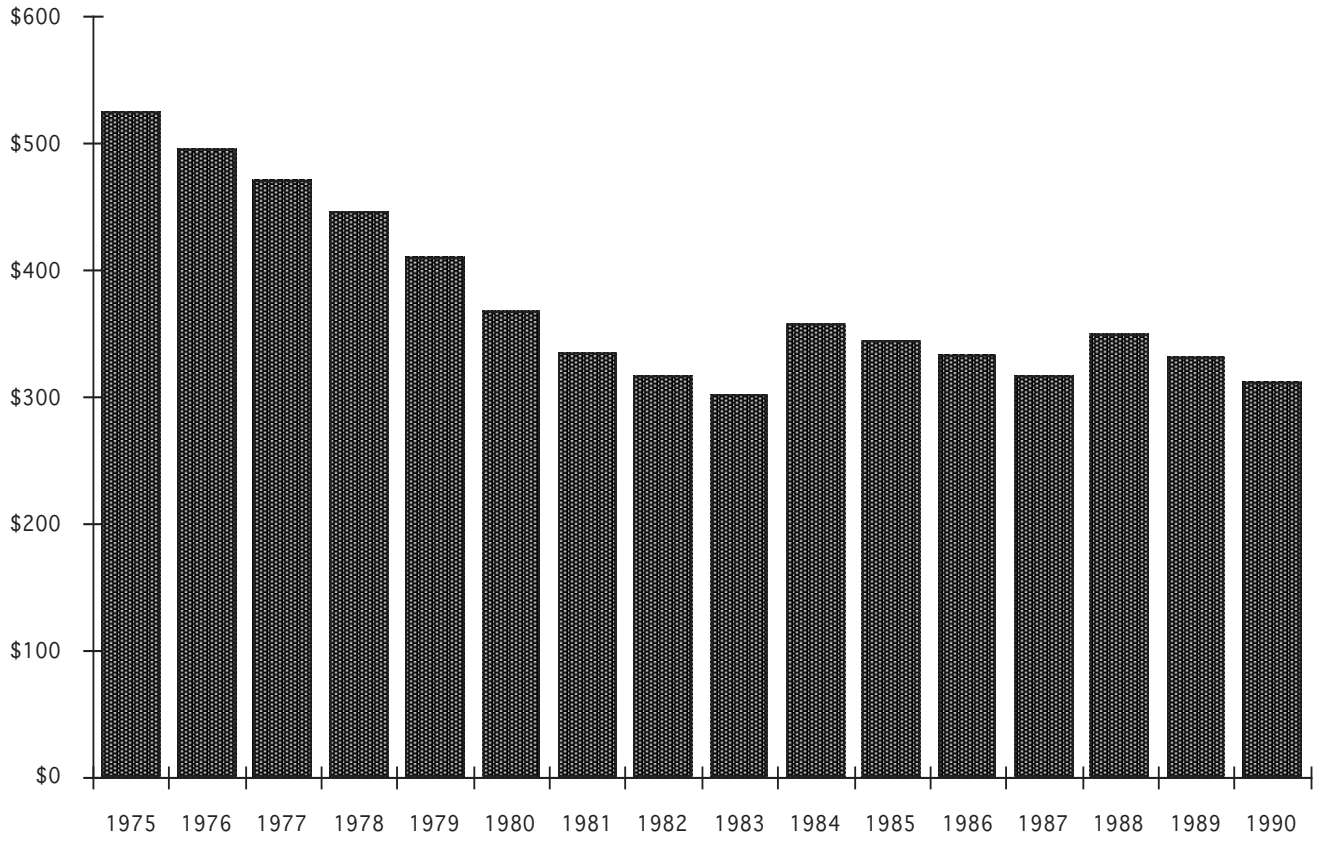
Shelter Allowance

Prior to the shelter ceiling regulations enacted by New York State on October 1, 1975, the shelter allowance was determined on a case-by-case basis. However, with the current regulations, a maximum shelter allowance is computed by household size. The only variation is whether heat is provided by the owner. For New York City the shelter allowance without heat is not relevant since less than one percent of the dwelling units have separate heating facilities.

Since the shelter ceiling was adopted the allowance was adjusted twice, in January 1984 and in January 1988. Using the example for a household size of 4, the chart shows that the shelter allowance has not kept pace with inflation. From October 1975 to December 1983 prices increased by 75% whereas the shelter allowance was adjusted by only 24% ($218 in 1975 to $270 in 1984). In January 1988 the shelter allowance was adjusted to $312 for a household of four.

Overall, since 1975 the change in the shelter allowance,

Shelter Allowance for a Four Person Household in Constant 1990 Dollars



Source: HRA, Office of Policy and Program Development, and U.S. Bureau of Labor Statistics

Note: The current dollar value of the shelter allowance in 1975, 1984, and 1988 was $218, $270, and $312 respectively. The allowance was adjusted in 1984 and 1988.

for any given household size, was less than 50% whereas inflation increased by almost 150%.

Homelessness

It is difficult if not impossible to assess thoroughly the severity of homelessness in New York City. The information that is available reveals only the changes in the number of persons lodging in public shelters over time, the desirability of using city shelters, and the city's willingness and capacity to provide temporary and permanent housing.

The number of homeless families in shelters has been increasing in fiscal year 1991 after a substantial decline of nearly 40 percent during the two previous fiscal years (see chart). The number of homeless families has increased nearly 20 percent during the first four months of fiscal year 1991.

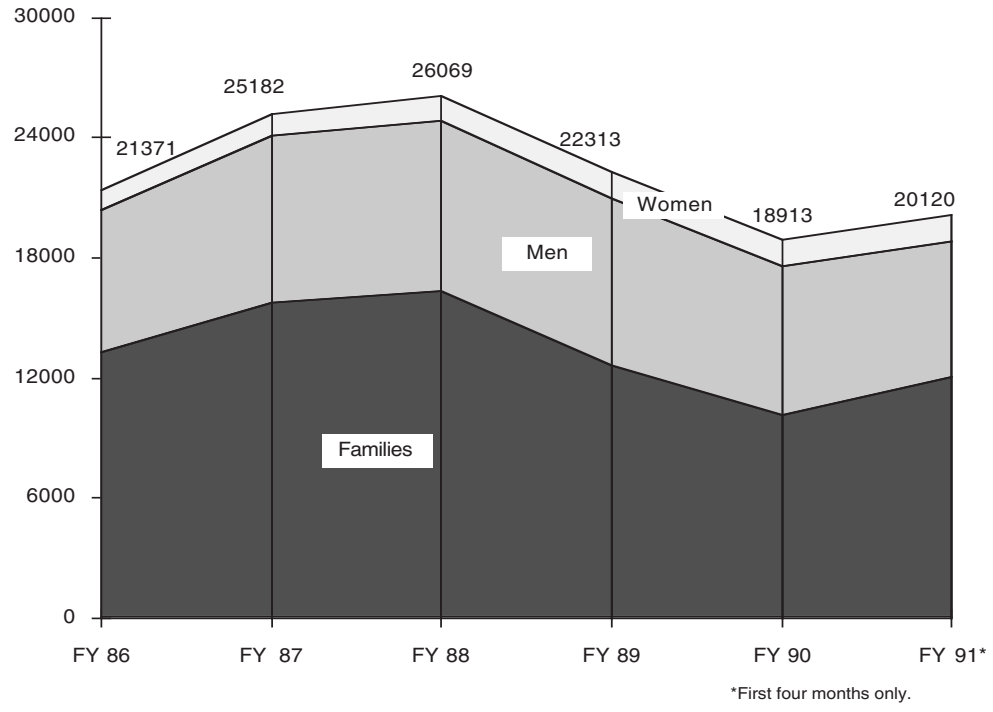
On the other hand, the number of homeless individuals lodging in shelters has declined slightly. It is not clear whether the changes in the number of homeless individuals lodging in shelters indicates a genuine decline in the number of homeless individuals rather than reflecting a lower demand for temporary shelters provided by the city.

The substantial drop (80 percent reduction) in welfare hotel occupancy in fiscal years 1989 to 1990 was a direct result of the city's plan to discontinue housing homeless families in welfare hotels (see chart next page). During the same period, the number of families living in Tier II and other shelters increased considerably because of the lower availability of welfare hotels.

As the number of families seeking and using temporary shelters escalated during fiscal year 1991, the city was forced to continue using some of these welfare hotels. Consequently, the number of families lodging in welfare hotels as well as other temporary facilities increased approximately 20 percent from the previous fiscal year.

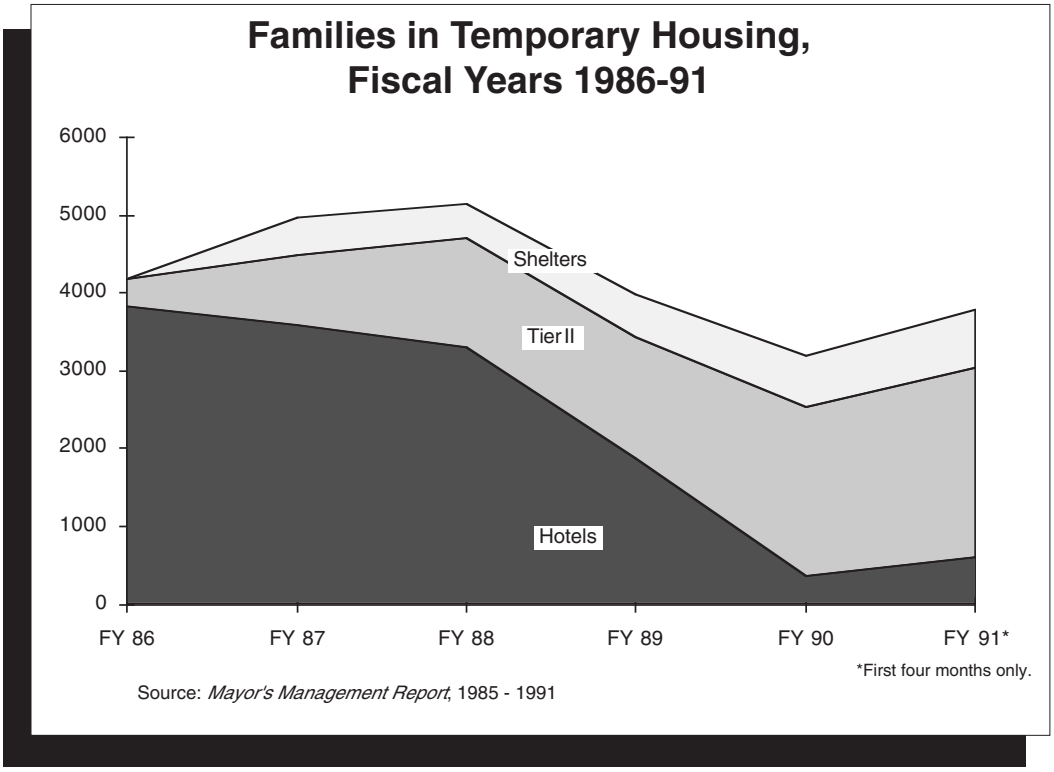
In summary, after two years of steady decline in the number of homeless families lodging in shelters, the city again has been burdened by the need to provide a greater number of tempo-rary shelters and permanent housing to a growing number of homeless families.

Number of Persons in Public Shelters, Fiscal Years 1986-91



*First four months only.

Source: *Mayor's Management Report*, 1986 - 1991.



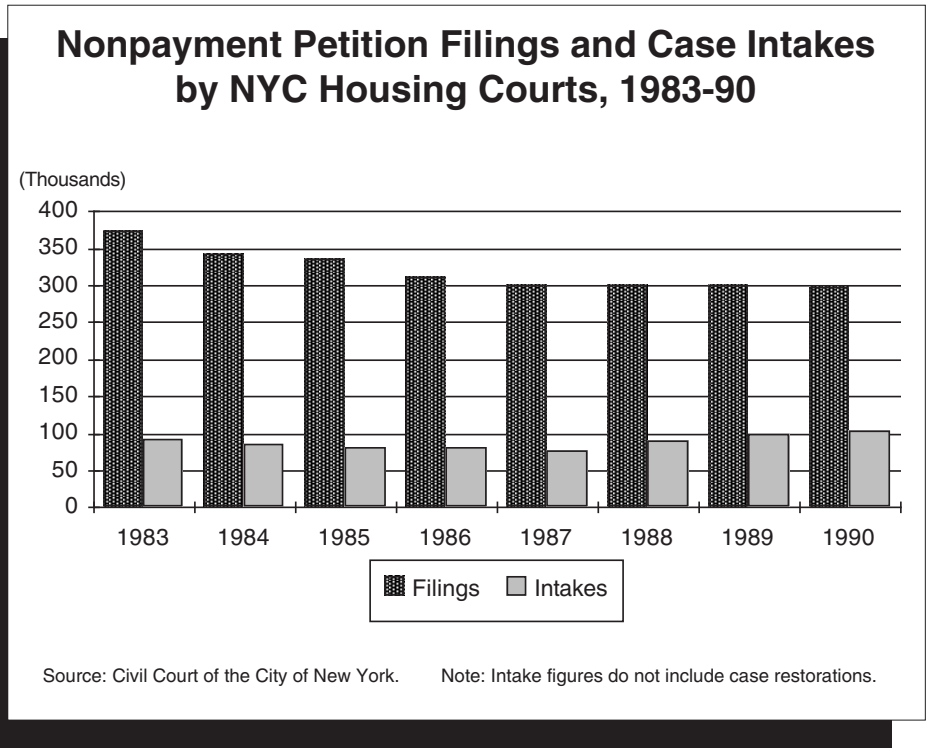
conditions.

In fiscal year 1990, existing rehabilitation programs produced over 4,000 apartments for homeless families and individuals, representing an increase of 25 percent from fiscal year 1989. According to the Preliminary Mayor's Management Report in January 30, 1991, another 4,300 apartments should be rehabilitated completely by the end of fiscal year 1991.

It appears that the city recognizes and has been combating the homelessness problem in many ways. In October 1990, the city initiated another rehabilitation program called "Alternative Pathways." While other city rehabilitation programs, such as the Special Initiatives Program and Capital Budget Homeless Housing program (as discussed in RGB's *A Summary of Rent Guidelines Board Research, 1990*), are aimed at placing homeless families in permanent housing, this new program places families in danger of becoming homeless because they live in overcrowded

Evictions and Non-payment Actions

In order to evaluate the state of low income households, the RGB staff has been tracking the number of non-payment petition filings, the level of non-

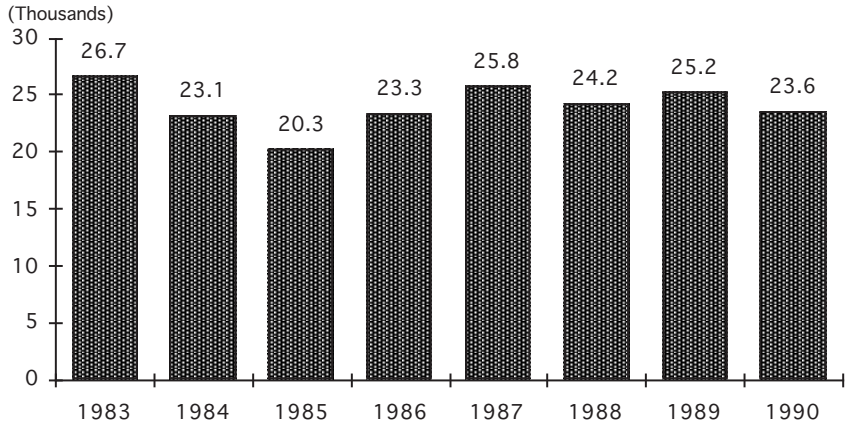


payment intakes, and the number of evictions performed by city marshalls. The information was provided by the Civil Court of the City of New York (see chart).

In 1990, the number of non-payment petition filings continued to decline while the number of intakes increased slightly. This may indicate that even though fewer landlords experienced non-payment of rent and were compelled to resort to legal means to evict tenants in 1990, more disputes over non-payment of rent remained unresolved prior to hearings.

The number of evictions performed by city marshalls declined approxi-mately six percent in 1990; approximately 1,600 fewer families were evicted than in 1989 (see chart). These figures include "possessions" as well as "evictions." In the former case, the marshalls simply padlock the door leaving the owner and tenant to resolve delivery of any remaining contents. In evictions, the contents of the apartment are removed and stored. The number of evictions from public housing represented a more dramatic decrease for both non-payment of rent or other reasons. The decline was substantial in each category (see chart). Since evictions in public housing are included in the overall eviction figures in the top chart,

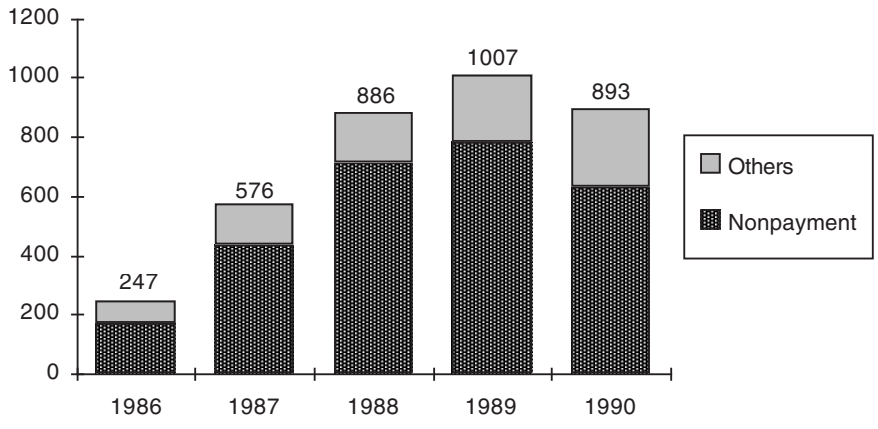
Evictions Performed by City Marshalls, 1983-90



Source: Bureau of City Marshalls.

Note: Includes both possessions and evictions. Slight underestimation may occur due to the inclusion of commercial cancellations in those subtracted from the overall residential evictions and possessions. Also includes evictions in unregistered, public and in-rem housing.

Evictions in Public Housing, 1986-90



Source: New York City Housing Authority, Research and Policy Development.

Note: As explained by staff at the Housing Authority, the term "other" includes non-desirability, chronic rent delinquency or individuals who are not tenants of record.

Housing Supply

New Construction, Tax Abatements and In-Rem Housing

Housing Permits

New construction activity in NYC declined considerably last year. In 1990 permits were issued for 6,858 new units. This is the lowest level of construction since 1982.

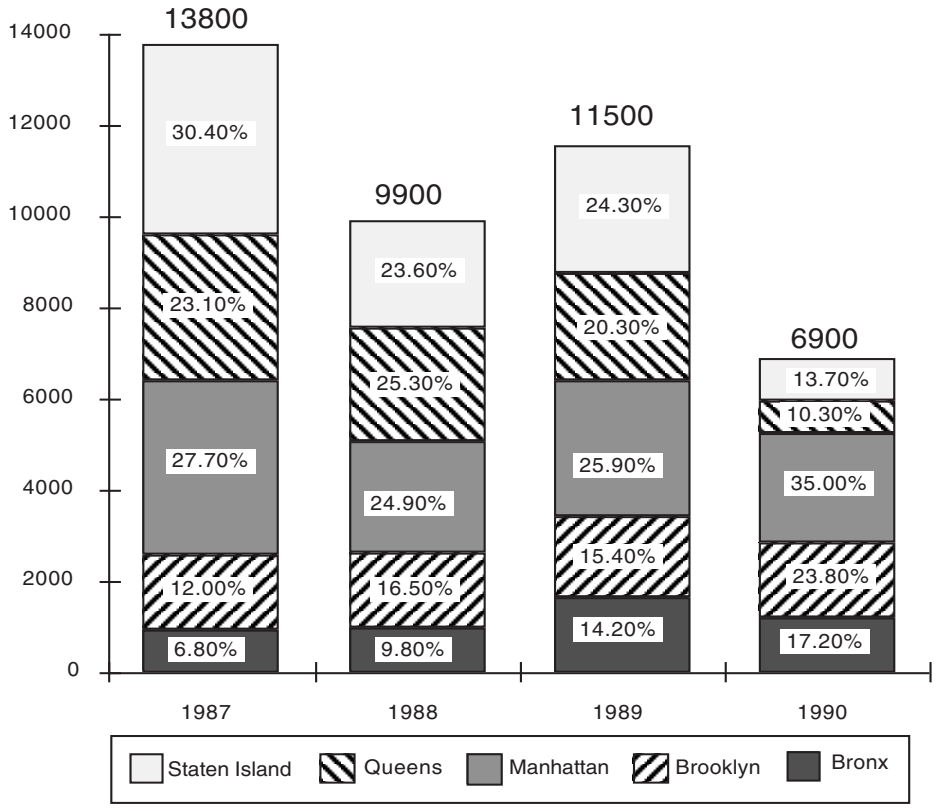
In 1987 Queens and Staten Island constituted more than half of new housing permits. However, the share of permits issued for new housing in Queens and Staten Island has decreased considerably in the last three years. Conversely, in 1990 more permits were issued in the Bronx and Brooklyn.

The distribution of housing starts among the boroughs may be a reflection of the on-going recession that has hit the city and all industries. In the current recession new private sector construction activity is relatively minor. Hence, the apparent redistribution of housing permits to the Bronx and Brooklyn may indeed be an indication of the city's ten-year housing program.

421-a

The number of preliminary 421-a certificates issued is one indication of the quantity of new housing units entering the housing market. After rising, on average, from 1985 to 1988 the number of 421-a

Permits Issued for New Housing, by Borough, 1987-90

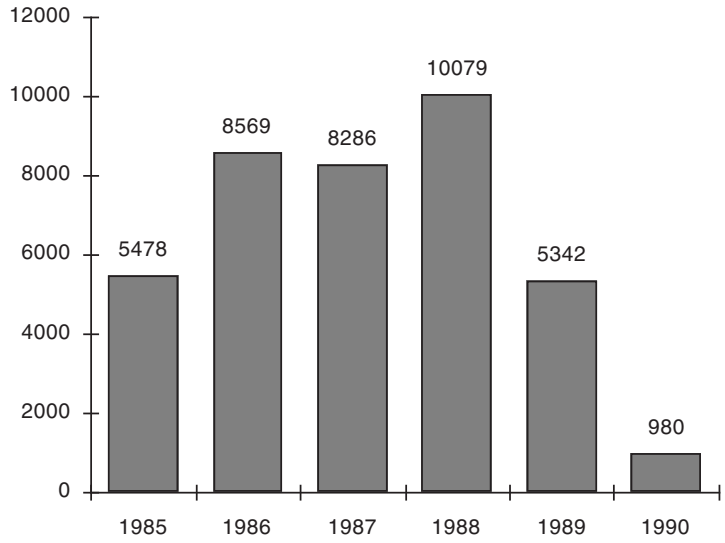


Source: New York State Division of Housing and Community Renewal.

Note: Total permits rounded to the nearest 100.

certificates issued declined sharply in the last two years. In 1989 the number of units in this tax exemption program dropped by 47%. Preliminary certificates issued during 1990 covered a mere 980 units in only 74 buildings. These certificates were issued primarily in Manhattan (652 units) and Queens (228 units).

Units in Buildings Receiving Preliminary Certificates for 421-a Tax Abatement, 1985-90

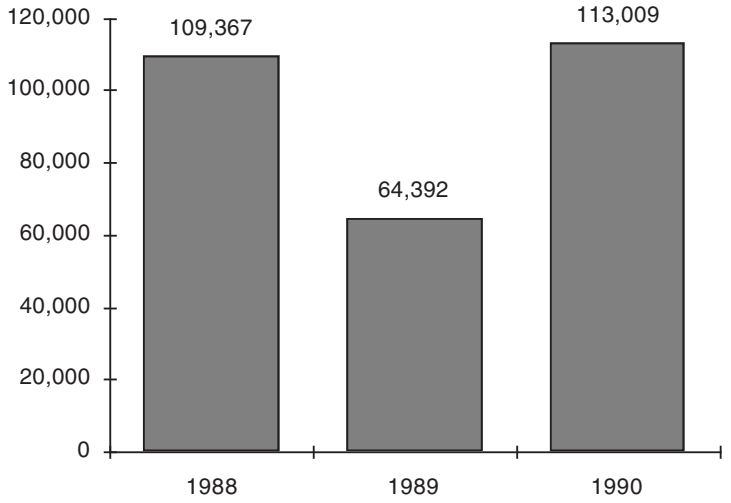


Source: NYC Department of Housing Preservation and Development, Division of Financial Services.

gut rehabilitations. As of January 1990 HPD revised its schedule of certified reasonable costs. Hence, it was expected that many owners, especially in Manhattan, would delay filing J-51 documents in order to take advantage of the more realistic cost allowances. As the chart below shows, this was the case.

The number of units increased substantially in all boroughs with the exception of Staten Island. Although the number of units was up by almost 76%, the number of buildings in the program declined slightly. However, the overall level of abatements for these buildings increased by only 11% from $128 million in 1989 to $142 million in 1990. This is the maximum amount of tax abatement that these buildings are eligible for while

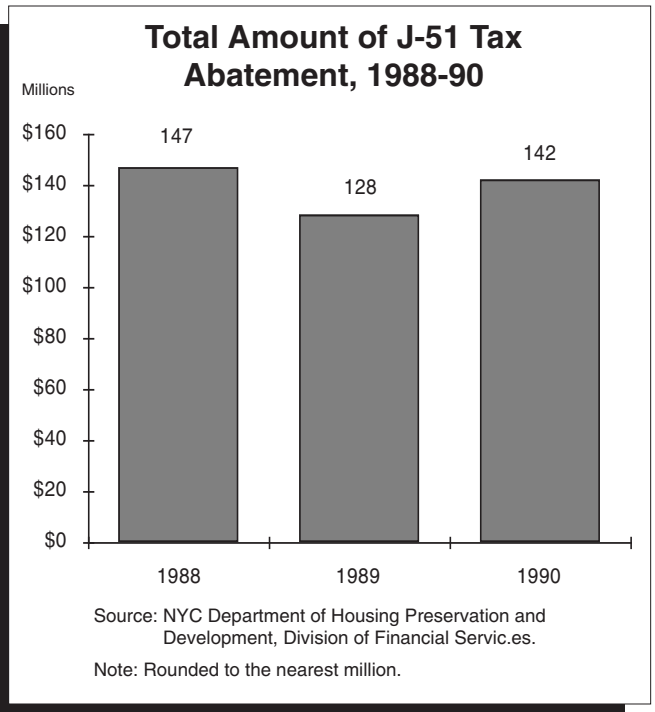
Number of Units Receiving J-51 Tax Abatement and Exemptions, 1988-90



Source: NYC Department of Housing Preservation and Development, Division of Financial Services.

J-51

The J-51 tax abatement and exemption program is an indicator of the level of rehabilitation to existing buildings. Abatements are issued for three types of work: major capital improvements, moderate rehabilitation, which requires the replacement of at least one building system, and



in the program.

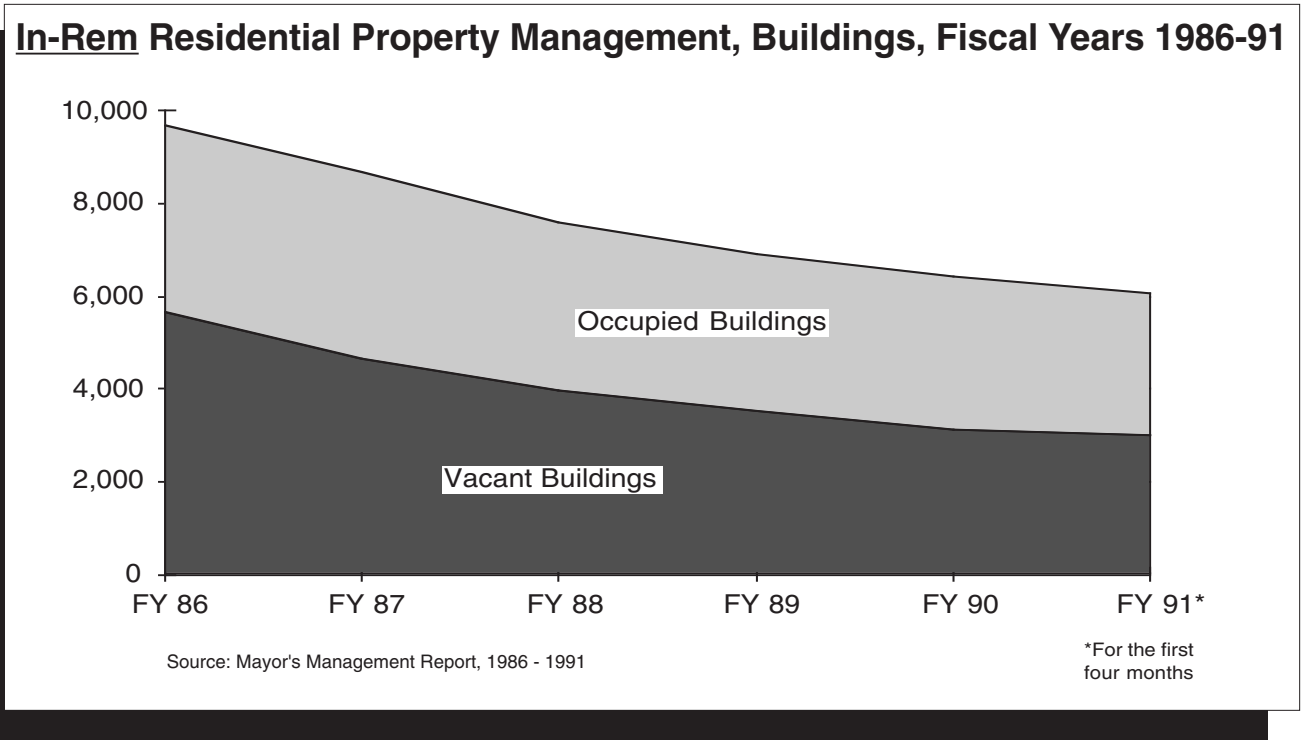
In Rem Housing

The city has made significant progress in managing and re-ducing the number of in-rem buildings since fiscal year 1986 (see chart). The number of vacant in-rem buildings has been reduced by 45 percent since fiscal year 1986 (approximately 5,700 buildings in FY 86 and 3,100 buildings in FY 90). The number of occupied in-rem buildings has also declined but at a much slower rate - about 18%.

In fiscal year 1986, vacant in-rem buildings constituted almost 60 percent of the in-rem residential stock. By fiscal year 1990, the figure declined to less than 50 percent of the in-rem stock.

The number of in-rem units - both vacant and occupied - has followed a similar downward trend during this period (see chart). The number of vacant units was reduced by 32 percent during this period (56,000 units in FY 86 and 38,000 units in FY 90). The city hopes to reduce the number of vacant units by another 11 percent in fiscal year 1991.

Units in occupied buildings are divided into occupied and unoccupied units; some of the units in these buildings are not occupied or even habitable. The number of occupied units decreased 13 percent by fiscal year 1990 (35,000 units in FY 86 and 30,400 units in FY 90). The plan



for fiscal year 1991 is to further reduce the number of occupied units by 2,500 units. In addition, the number of unoccupied units has also declined. From fiscal year 1986 to 1990, the number of unoccupied units was reduced from 4,700 units to 3,500 units, a reduction of nearly 26 percent.

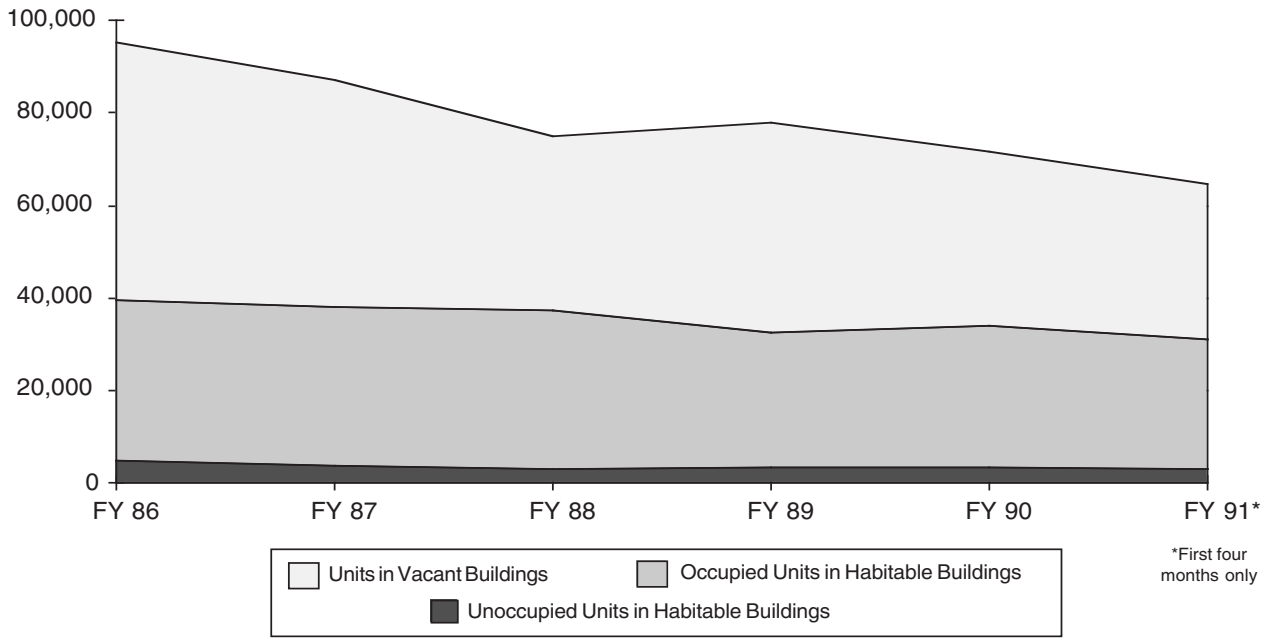
As these figures show, the city has made greater progress in reducing the number of units in vacant buildings than occupied units. In fiscal year 1986, units in vacant buildings accounted for 58 percent of all residential in-rem units while occupied units made up about 37 percent of the total. The remaining five percent are unoccupied units in habitable buildings. By fiscal year 1990, the proportional distribution of the in-rem units changed to 53 percent of units in vacant buildings, 42 percent of occupied units, and 5 percent of unoccupied units. The number of unoccupied units continued to account for approximately five percent of the total in-rem units.

The economic strength of the mid-eighties and the city's commitment to protect these marginal properties from further deterioration have contributed to the reduction in the number of residential in-rem properties and to the proportional changes within the in-rem stock. However, in-rem vesting data provided by HPD's Office of Property Management indicates some increase in recent vesting, although a change in vesting practice may have affected the level of increase (see chart).

The erratic level of vesting activities throughout much of the eighties was partly due to the fact that vestings were conducted sporadically on a borough-by-borough basis instead of on a citywide annual basis. The in-rem law was modified in 1984 to permit citywide annual vestings of multi-family buildings, but it did not become operational until fiscal year 1989.

During this period, in-rem vestings of multi-family buildings seemed to peak every three years and each peak level brought another 60 percent reduction in the number of multi-family buildings vested (2,500 buildings in FY 1983, 1,000

In-Rem Residential Property Management, Units, Fiscal Years 1986-91



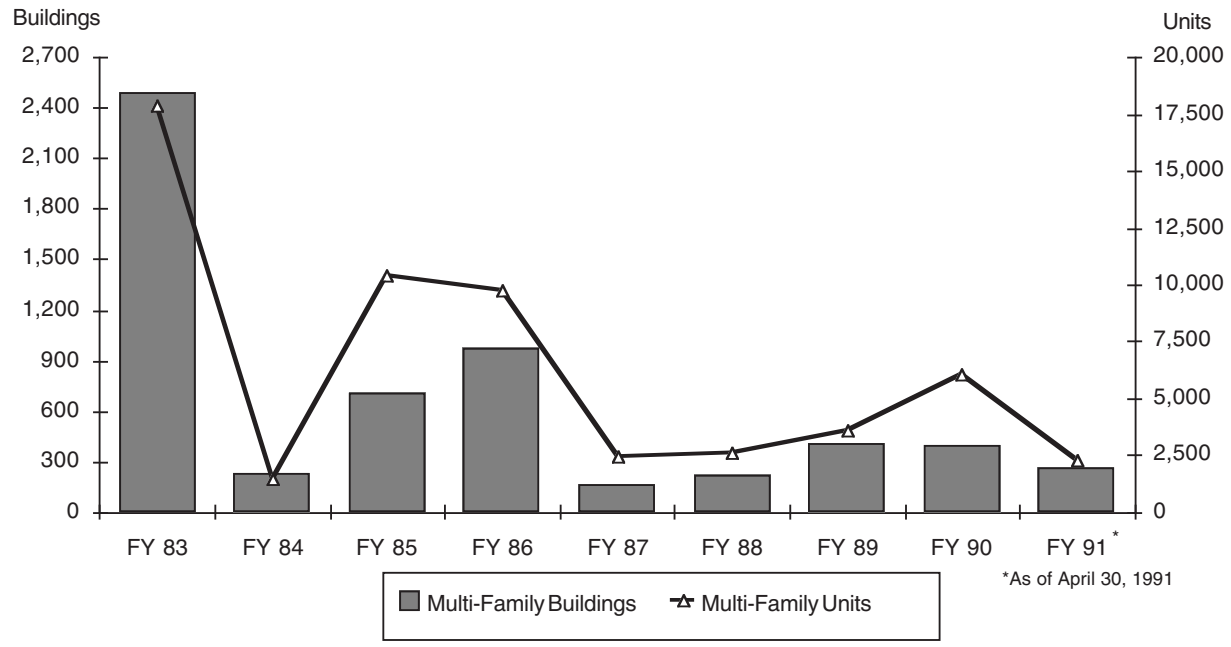
Source: Mayor's Management Report, 1986 - 1991

buildings in FY 1986, and 400 buildings in FY 1989). However, after falling to a record low level in fiscal year 1987, the number of vestings has edged upward. The number of buildings vested increased by 30 percent in fiscal year 1988 and 90 percent in fiscal year 1989. However, changes in vesting practices in fiscal year 1989 (i. e. annual vestings in all boroughs) may have inflated the latter percentage of increase. In fiscal years 1989 and 1990, the city vested approximately the same number of buildings. The substantial increase in the number of units vested from fiscal years 1989 to 1990 was largely caused by the increase in size of these buildings (3,600 units in 400 buildings and 6,000 units in 400 buildings respectively).

According to Local Law 45 which was enacted in 1977, an owner is entitled to a two-year redemption period after his or her property falls in tax arrears for one year. During the first four months of the redemption period, an owner and the Finance Department may negotiate and agree on some form of installment plan for the payment of back taxes and penalties. However, once the property enters the second redemption phase, known as the discretionary redemption period, redemption becomes subject to the city's approval. The Board of Estimate used to handle the discretionary redemption applications. There may be a surge in the level of discretionary redemptions in the coming fiscal year after a new procedure has been adopted to handle all the backlogged discretionary redemption applications.

In November 1990, the RGB staff met with Stacy Martin, Director of Operations in HPD's Division of Property Management. Based on the Finance Department's information on tax-delinquent buildings and her Division's vesting activities, we were informed that the redemption rate has been relatively constant even though there has been some fluctuation in the number of tax-delinquent buildings over the past few years. Moreover, according to HPD's vesting plan, there will not be any significant change in vesting in fiscal year 1992 (approximately 3,200 units in 300 buildings). ❑

HPD Vestings of Multiple Dwellings, Fiscal Years 1983-91



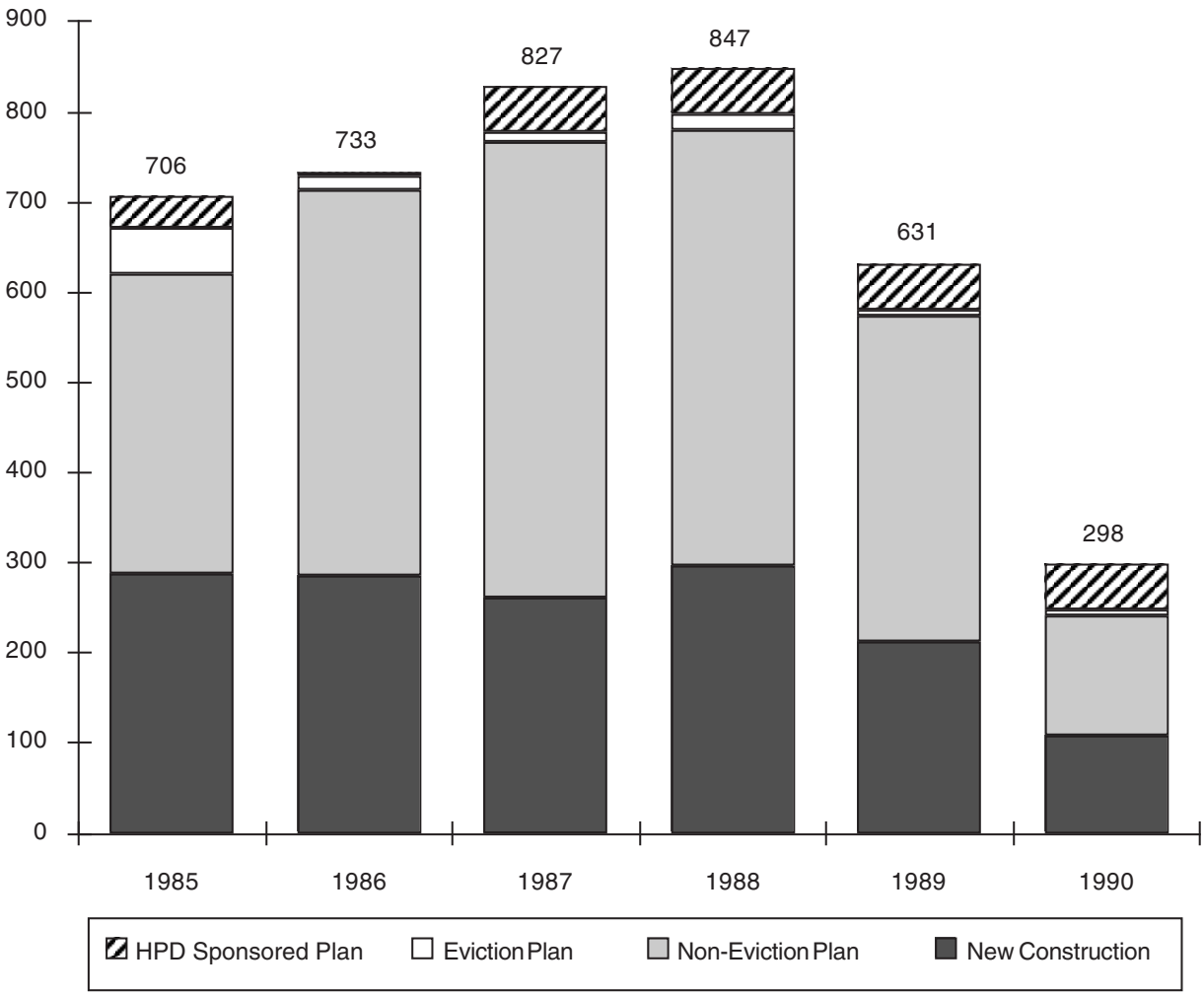
Source: Department of Housing Preservation and Development, Office of Property Management.

Residential Co-op and Condominium Activity

The surge in co-op and condominium conversions of the '80s has now receded. The number of plans accepted for filing by the Attorney General's Office has declined considerably in the last two years. In 1990 a total of 298 plans were filed, a decrease of 53% from 1989. Although New Construction and Non-Eviction Plans accounted for nearly all the decrease in the number of plans accepted for filing, both conversions types combined accounted for 81% of the total plans.

After reaching a peak of more than 50,000 units in 1986, the number of co-op and condominium units dropped to 20,382 in 1990 from 32,694 units in 1989. This was the lowest level of units in plans accepted for filing since 1981. As the chart shows,

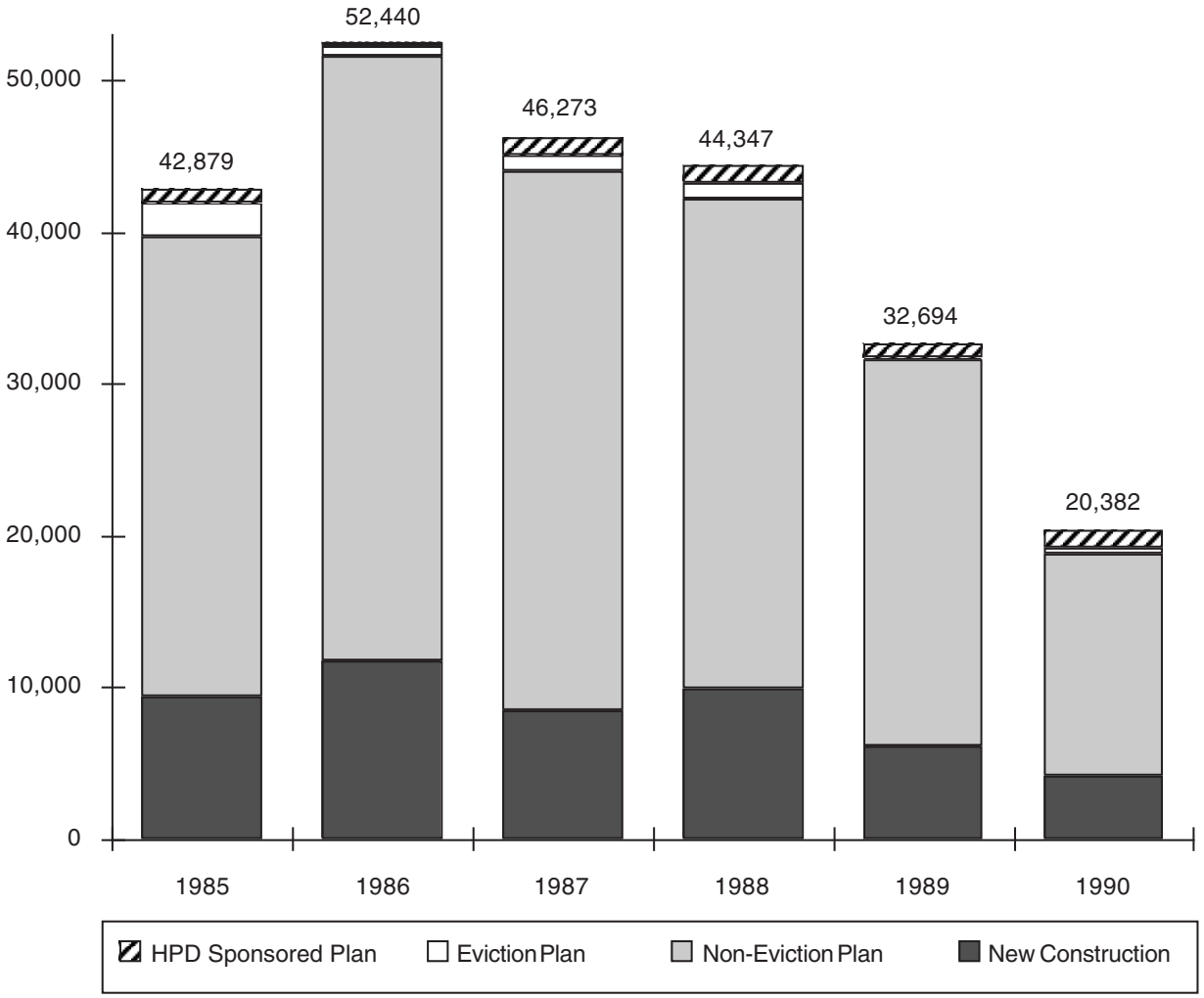
Number of Plans Accepted for Filing, 1985-90



Source: NYS Attorney General's Office.

the decline in the number of units occurred in New Construction Plans and Non-Eviction Plans. In spite of this drop, however, 92% of the units were filed under these two plans. There were modest increases in the number of units for Eviction Plans and HPD Sponsored Plans. ❑

Number of Units in Plans Accepted for Filing, 1985-90



Source: NYS Attorney General's Office.

Rent Stabilized Hotels

1991 Price Index of Operating Costs for Rent Stabilized Hotels

The hotel price index was developed by USR&E based on its findings in the *Report on the Analysis of Expenditure Data for the 1985 Price Index for Hotels*. The hotel PIOC includes separate indices for each of three building categories (i.e. SROs, Rooming Houses, and Hotels) and an index for all hotels.

The overall increase in the hotel PIOC was 5.7% this year, slightly above the rate of increase for apartments (i.e. 5.3%). With the exception of taxes, which rose sharply (19.2%), changes in all of the other components were moderate.

There were substantial differences between the three hotel subcategories. While the price index for the "hotel" subcategory rose 8.1%, the PIOC for SROs increased less than half as much (i.e. 3.3%). The increase for rooming houses was 5.0%.

Differences in the rate of increase among the three indices are due largely to the PIOC component weights, in particular the tax component. Taxes account for approximately 26% of costs in hotels, 17% in rooming houses, and 10% in SROs. The substantial weight given to taxes in the hotel group, coupled with a 22.7% increase, accounts for the 8.1% rise in overall costs in this category.

The reliability of the tax relative was improved this year by obtaining a comprehensive list of hotel buildings from HPD. This hotel data was originally developed for the 1991 Housing and Vacancy Survey. By matching the HPD/HVS list with the DHCR/Finance Department file, we were able to isolate 836 hotel-type buildings which were registered with DHCR. These buildings were used to compute the hotel tax relative.

There was some variation in the tax relative for the three subclasses of hotels. Among hotels the increase was 22.7%. Increases for SROs and rooming houses were 15.6% and 17.6% respectively.

Fuel costs rose by 4.2%. The increase was slightly smaller than for apartments because few hotels use #4 fuel oil. Utilities costs, as in apartments, were largely unchanged.

Increases in the labor-based components were somewhat smaller than for apartments. The increase in the labor component, in particular, was lower (3.1% vs. 5.2% for apartments) because of the types of workers in hotels.

No separate insurance relative was computed for hotels. The increase (4.4%) is the same as for apartments. Prices for Parts & Supplies and Replacement Costs increased by 3.1%. ❑

Change in the Components of the Hotel Price Index of Operating Costs, April, 1990 to April, 1991

	All	Hotels	Rooming Houses	SROs
Taxes, Fees & Permits	19.2%	22.7%	17.6%	15.6%
Labor Costs	3.1	3.4	3.1	1.9
Fuel Costs	4.2	4.2	4.5	4.0
Utilities Costs	-0.4	0.6	-1.2	-3.0
Contractor Services	4.7	4.9	4.4	4.6
Administrative Costs	2.2	1.9	3.1	2.8
Insurance Costs	4.4	4.4	4.4	4.4
Parts & Supplies	3.1	3.0	3.5	3.1
Replacement Costs	3.1	3.1	2.9	2.9
OVERALL	**5.7**	**8.1**	**5.0**	**3.3**

Report on Rent Stabilized Hotels

Summary

The data in this study raises some troubling questions about the implementation of rent regulation in the hotel sector. Given the low rate of registration and the possibility that many owners may derive a small percentage of revenue from permanent tenants one might argue that the impact of the regulatory system on this vital housing resource is rapidly diminishing.

As our registration study will show, a very large proportion of hotel buildings and units which should have registered with DHCR have failed to do so. In fact, using a *very conservative* approach, we estimate that 40% of all hotel-type units which should have registered between 1984 and 1989 did not register even once. The non-registration rate for the 1987-1989 period is even higher.

The hotel I&E portion of this study indicates that "apartment" rental income represents less than half of all income for hotel-type buildings as a group. For hotels and SROs the percentage of income from apartment rental is even less - about one-third. The I&E form includes separate categories for "apartment" rental income and "other" rental income under the heading "Rental from Tenants." If owners considered the apartment rental income category to include rents from permanent tenants and "other rental income" to refer to transient tenants, the implications of the above findings would be dramatic. However, it must be said that the I&E form is not tailored to the needs of hotel owners. There is enough ambiguity in the form (and how the owners may have approached the form) to make conclusive statements about the exact percentage of income from permanent tenants difficult.

Between 1985 and 1990 nearly a third of hotel buildings became luxury hotels or motels, were converted to co-ops or condominiums, became vacant, or changed use in some other manner. The disappearance of single room occupancy hotel rooms described in USR&E's *Single Room Occupancy in New York City* continues.

Although the stabilization system does protect a dwindling number of tenants, one might ask at what cost. Landlords who follow the RGB guidelines have received very modest rent increases since 1983. It is obvious that market, institutional and regulatory forces encourage owners to leave the stabilization system. It is not clear, however, if this loss would have occurred differently in the absence of rent regulation.

Finally, it must be pointed out that 25% of the buildings in this study reported O&M to income ratios of more than 100% (vs. 10% in the apartment I&E study). Over one-third of rooming house operators reported O&M to income ratios of over 100%.

Introduction

Background

The most recent and comprehensive hotel research dates from the mid-80's. The studies of particular interest to the Board were both undertaken by USR&E: *Single Room Occupancy in New York City* and the *1985 Hotel Expenditure Study*. The primary objective of *Single Room Occupancy* was to estimate the number and type of hotel units in the city; however, a module on owner operating costs and income was also part of the study. The object of the hotel expenditure study was to provide a reliable estimate of average operating costs by expenditure category for the hotel PIOC.

The Hotel Expenditure Study was conducted in the first four months of 1985. The sample frame for the study was the Metropolitan Hotel Industry Association (METHISA) membership list. All of the 647 establishments registered with METHISA were contacted and 134 responded to the survey, including 14 hotels (44% of units), 104 rooming houses (37% of units), and 15 SROs (19% of units). USR&E used the survey responses to devise expenditure weights for the Hotel PIOC. Weights were computed for four categories: Hotels, Rooming Houses, SROs and "All."

Single Room Occupancy in New York City was commissioned by HPD to help the city devise policies to combat the loss of SROs. One major goal was simply to establish a reasonable estimate of the remaining population of SRO-type units. After a lengthy analysis of the Master Building File and visits by HPD inspectors to buildings likely to contain SRO units, HPD and USR&E determined the number of units which were extant. The percentage breakdown of these units, excluding the "other" category, was: Hotels (42%), Rooming Houses (42%) and SROs (15%).

In another portion of the SRO study USR&E surveyed the owners of SRO-type buildings; 193 responses to the survey were received. Over 90% of the units represented in the owner survey were hotels or SROs while a mere 10% were rooming houses. However, a majority of BUILDING responses were from rooming houses. Usable financial information was gathered for 66 buildings. Due to the extremely small size of the Hotel and SRO samples (12 and 10 buildings respectively) the information does not appear to be reliable.

Apart from the USR&E studies, only one other major effort has been made in the last 6 years to quantify the remaining population of hotels. In preparation for the 1991 Housing and Vacancy Survey (HVS), HPD staff prepared a SRO sample frame for use by the U.S. Census Bureau. The sample frame is HPD's best estimate of the remaining universe of SRO-type units. Although the list should not be used to arrive at a numerical estimate of SROs (the HVS will do this) it may give us some idea how the distribution of units within this sector has changed in the past few years. According to HPD the 1990 breakdown (excluding "other" SROs) is as follows: Hotel (33%), Rooming House (50%) and Section 248 SRO (16%).

It is interesting to compare the breakdown of units in the 1985 SRO study and HPD's most recent effort. The total number of units is comparable but rooming houses are a substantially greater proportion of the stock in 1990 (i.e. about 50% of units) while both the number and percentage of hotel units has declined substantially. As we shall see, the decline in the number of hotel units is largely a result of hotel owners converting their buildings to luxury hotels or co-ops/condominiums.

The two hotel studies undertaken in the mid-80's suffer from a common problem - poor survey results. For instance, the Hotel Expenditure Study received only 14 responses from hotels. Yet, due to the way in which the weights for the Hotel PIOC were

calculated, these 14 hotels account for MORE THAN HALF of the entire index. Only 22 SROs and hotels responded to USR&E's owner survey but these buildings contained over 90% of the units on which the per unit net operating income (NOI) figures were based. The I&E portion of the current study, which is based on a carefully chosen sample of properties, will attempt to address the problem of poor financial survey statistics.

Before we delve into the issues, a note on terminology would be useful. The RGB has used the term "hotel guidelines" to cover all hotel-type units covered by the Board's orders, including apartment hotels, SROs and rooming houses. In some years separate rent guidelines have been formulated for the various sub-categories. This paper tries to use the word "hotel-type" as a generic term to refer to all three categories. To make matters a little more confusing, HPD (and the reports commissioned by HPD) most often uses the term "SRO" or "SRO-type units" as a generic term to cover all three types of "hotels" (as defined by the RGB). Hopefully the context will be sufficient to allow the reader to decipher the appropriate meaning of all terms.

Issues

In the *1985 Price Index of Operating Costs for Hotel Stabilized Units in New York City* it was noted that

> *When buildings are sorted according to the Multiple Dwelling Law classification into three groups (Hotels, Rooming Houses, and SROs), it is apparent that their operating characteristics are quite dissimilar. Accordingly, separate price indexes have been constructed for each class of building.*

Despite the apparent effort by USR&E to emphasize the *variety* of the housing stock in the hotel sector, hotel guidelines in the 80's were shaped largely by conditions in Manhattan hotels and SROs. The guidelines largely reflected testimony of hotel tenants about poor living conditions and a presumption that hotel owners were collecting adequate rents by making units available to transient tenants. Most of the evidence presented to the Board was circumstantial, and very little of it concerned rooming houses, apart from the testimony of a few rooming house operators.

This study is an attempt to gather some quantifiable evidence to supplement the vast amount of anecdotal material the Board has received over the past few years. In particular, there are five main areas of concern:

1. Reliability of the Hotel PIOC;
2. Overall financial condition of hotel-type buildings;
3. Registration issues;
4. Housing conditions;
5. Differences between sectors of the hotel stabilized stock.

Over the past eight years the hotel PIOC has been overtaken by other considerations in the determination of hotel guidelines. With numerous and pressing research needs and limited resources, examination of the reliability of the hotel PIOC has not been a top research priority. The recent availability of the Finance Department I&E data has made it now possible to evaluate the reliability of the hotel PIOC expenditure weights.

The financial condition of hotel-type buildings is a matter of greater dispute. Although it has been assumed that many hotel owners are renting units on a "transient" basis, the relative importance of income derived from these rentals has been a matter of speculation. In addition, it has never been possible to evaluate the notion that while some owners (e.g. hotel) benefit substantially from transient income others might not (e.g. rooming house operators). This study presents up-to-date information on the O&M to income ratio for the various categories of hotels.

The registration of hotel buildings and units is an issue that is closely tied to the financial condition of owners. Owners who

do not register their buildings may be more likely to rent units on a "transient" basis. Some owners may have never registered in order to evade rent regulations entirely. It is possible that others, discouraged by low rent increases in recent years, no longer register their buildings, recognizing that in the event of enforcement, the only penalty for failing to register is no rent increases.

It has proven impossible to make a direct connection between DHCR's rent registration data and the Finance Department's I&E files. Even so, this data is a good start.

Registration Study

In the 1985 SRO study (*Single Room Occupancy Housing in New York City, USR&E, 1986*) a serious attempt was made to determine the size of the SRO housing stock. After choosing a sample of buildings which were thought to contain SRO units, HPD inspectors visited each building to determine whether this was the case. Of the original sample of over 1,100 buildings, 794 were determined to contain SRO units.

The purpose of this registration study is to examine these 794 buildings in detail. More specifically, we attempt to answer the following questions:

1. How many of the buildings are part of the stabilized stock and are required to register with DHCR? How many actually did register at least once between 1984 and 1989?
2. What has become of these buildings since 1985? For instance, how many of the buildings are now vacant or converted to co-ops or condominiums?
3. Has registration been affected by the low rent guidelines of the past several years?

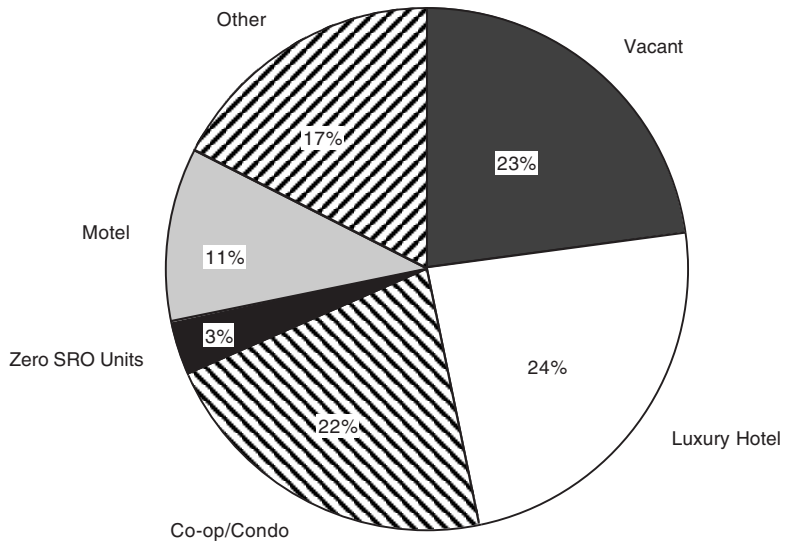
In order to answer the first question, the 1985 list was tailored to exclude buildings which did not contain stabilized units. The 1985 buildings did not include institutional SRO buildings (e.g. college dormitories, nurses residences), luxury hotels, vacant buildings, and residences operated by the city, state or another government entity. However, the list did contain some buildings with less than 6 units. After excluding the 22 buildings with less than 6 units, we were left with 772 buildings containing SRO-type units; these are buildings which should have registered with DHCR (Seven of these buildings had less than six units in our files but also registered with DHCR. We assume that they were required to register.)

In order to develop a conservative estimate of non-registration which takes into consideration developments in the stock since 1985, two additional adjustments to the data were made. First, it was presumed that all buildings which were in-rem in 1991 (27 buildings) were not required to register in any year. Second, some of the buildings in the 1985 group (of 772) were excluded by HPD from their 1990 list for various reasons. It was assumed that NONE of these buildings were required to register in any year between 1984 and 1989.

Of the 772 buildings from the 1985 SRO study, 92 were excluded from HPD's 1990 sample frame. The reasons for exclusion were diverse and include the following: Vacant, dormitory, luxury hotel, co-op/condo, zero SRO units, motel, miscellaneous other reasons. The chart on page 80 shows the breakdown of excluded buildings by the reason for exclusion.

Nearly one-third of the hotel buildings on the 1985 list (60 buildings) were excluded by HPD in 1990. Over half of these buildings were classified as either luxury hotels or as motels in 1990; the next largest group of excluded buildings included co-ops or condos. About one-tenth of the rooming houses and SROs on the 1985 list were excluded;

Distribution of the 92 Buildings Excluded by HPD on the 1991 HVS List



Source: NYC Department of Housing Preservation and Development.

Note: The category "other" includes buildings that are dormitories, buildings with certain types of informational housing code violations, and buildings rejected in the 1985 SRO Survey.

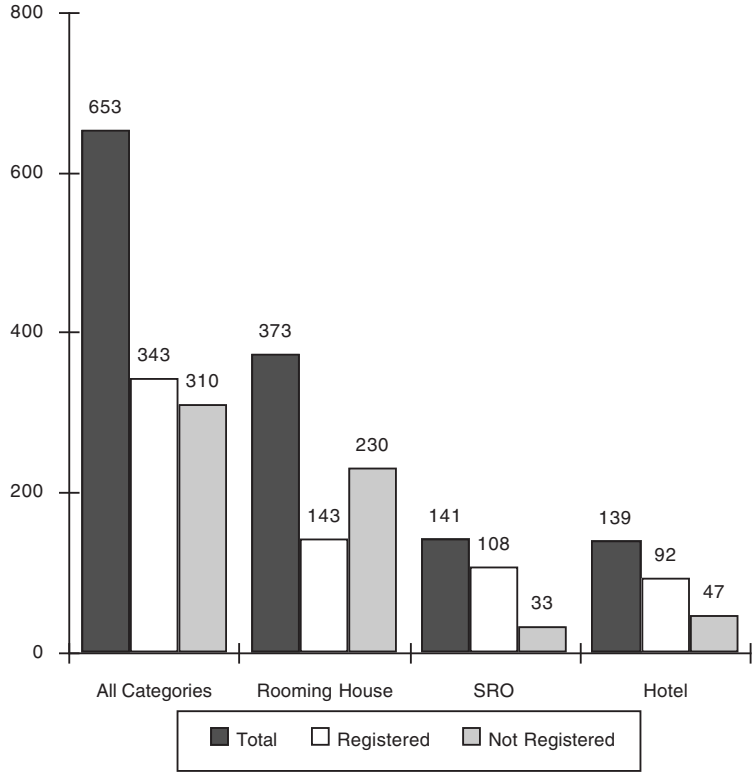
"vacant" and "co-op/condo" were the most frequent explanations.

In excluding buildings from the 1985 sample, HPD did not necessarily determine that the excluded buildings contained NO SRO-type units. HPD's primary aim was to include buildings which were SROs (although the buildings may also contain some type A housing units) and to exclude buildings which were likely to have few or no SROs. It is reasonable to assume, for instance, that some of the co-ops excluded from HPD's SRO sample frame were converted under noneviction plans and still contain SRO-type units.

The assumption that NONE of the buildings excluded by HPD were required to register is a very conservative approach. This will be considered a low bound for non-registration. Using the 653 buildings which remain (original 772 minus 27 in-rem, minus 92 excluded by HPD), we see that 47% of all buildings failed to register, including 34% of hotels, 23% of SROs and fully 62% of rooming houses.

The picture is somewhat different if we look at units registered rather than buildings. Using the conservative approach once again, 59% of rooming house units in our sample are unregistered, 29% of hotel units, and 18% of SRO units. Since the 1985 sample is not representative of the hotel stock as a whole, it has been weighted to arrive at an

Registered and Non-Registered Buildings by Hotel Category



Source: NYS Division of Housing and Community Renewal, 1985 SRO Study, and NYC Department of Housing Preservation and Development.

estimate of the total number of hotel-type units in the city which have not registered since 1984. **It appears that at least 40% of all (potential) stabilized hotel-type units have not been registered even once since 1984.**

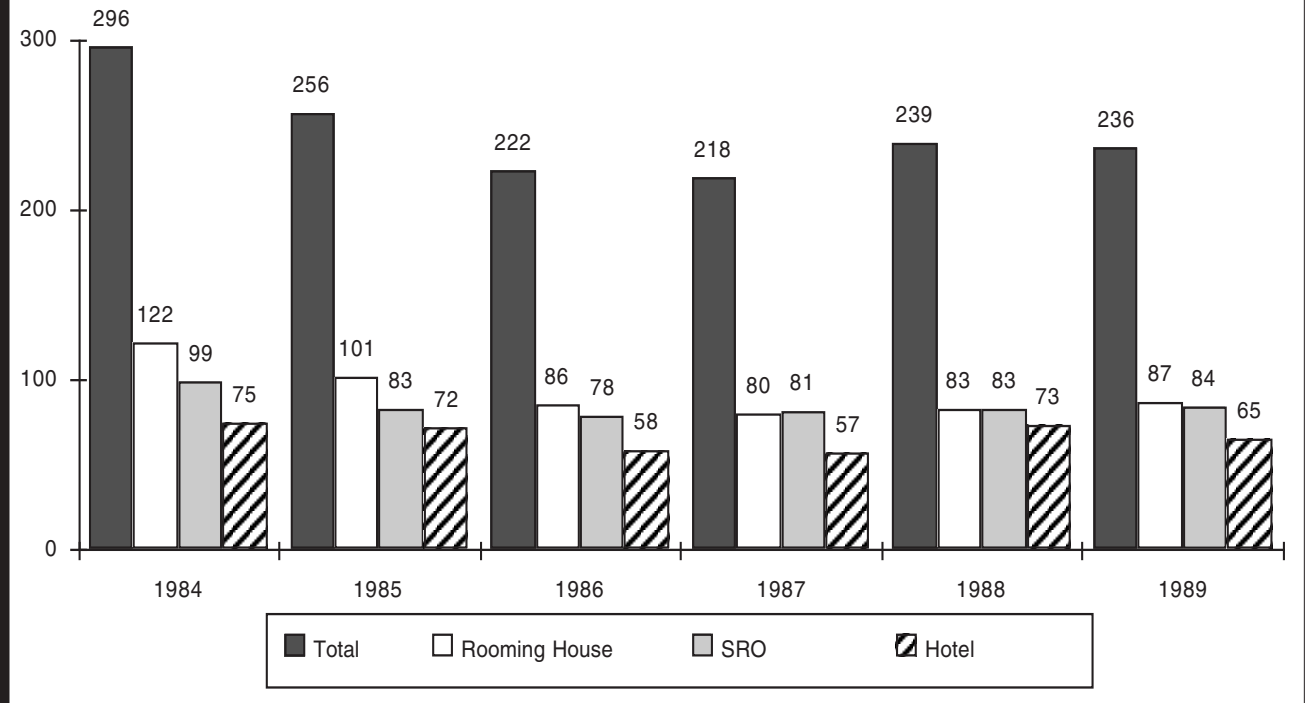
And what of the buildings which have registered? Have they continued to register even though the rent guidelines were extremely low throughout the 80's? The chart on this page shows registration trends for the 1984 to 1989 period.

The peak year for registration was in 1984. During the next three years registration for all types of hotel-type buildings declined steadily, reaching a level of 218 buildings in 1987. During the next two years registration levels improved somewhat. Even so, the non-registration rate for buildings was 64% in 1989 using our most **conservative** assumptions and over 75% among rooming houses.

The patterns in registration rates do not directly parallel low rent allowances. If low allowances were the sole factor influencing registration rates one might have expected an uninterrupted decline in registration. Instead, registration seems to follow trends in the New York City economy (in an inverse fashion) with declining registration during the prosperous mid-80's and registration improving somewhat as the economy softened.

The correlation between the economy and registration rates could be entirely coincidental, although it does seem reasonable to assume that enhanced economic opportunities for landlords might lead to lower registration rates. Other factors which may have had a more direct impact on registration include DHCR enforcement efforts, the activities of tenant groups, and tenants' knowledge of the rent registration system.

The data does not, of course, reveal WHY non-registration rates differ for the various classes of buildings, though it does provide some



Source: NYS Division of Housing and Community Renewal, 1985 SRO Study.

hints. Building size, location, and building type all appear to be important factors in determining whether a building will register.

There are enormous differences in building size among the three categories of hotels. While rooming houses contain an average of 13 units per building, hotels have 162 units. SROs are in between with 70 units. Within each of the three groups, buildings which are registered are, on average, larger than those which have not registered. For instance, among Manhattan SROs, registered buildings average 92 units per building while non-registered buildings have only 66 units per building.

Location also seems to be very important. Manhattan is the only borough with a majority of registered buildings. The "close in" boroughs follow with substantially lower registration rates. Amazingly enough, in Queens only 3 of 74 buildings were registered. It seems as if distance from Manhattan is directly correlated with the likelihood of registration.

The RGB also gathered information on tax arrears and housing code violations for the buildings in our sample. Average arrears for rooming houses (1.26 quarters) were double the rate for SROs and hotels (.63 quarters). Rooming houses also had substantially more housing code violations per unit (1.72) than either SROs (.7) or hotels (.26). The average number of violations per building for rooming houses was half that of hotels; however, hotels are on average more than 10 times larger.

The data on arrears and violations was also tabulated for buildings which registered and buildings which did not. Average arrears are not significantly different for the two groups. This may indicate that regulated rents are not a significant factor in the financial stress experienced by some of these buildings.

Violations per unit are higher for **registered** buildings than non-registered buildings in the hotel and rooming house sectors but lower for SROs. The most serious (i.e. "C") violations follow the same pattern. High registration levels and large number of violations in certain locations and building types may reflect pressure from local advocacy and enforcement organizations such as the West and East Side SRO Law Projects. The higher violation count may relate to a greater frequency of inspections in closely monitored buildings, brought on by such organizations. Without more specific information, however, this data is largely inconclusive.

I&E Study

Sample Frame

A comprehensive sample frame for the hotel income and expense study was not readily available, therefore staff was faced with the necessity of developing one. To compile a comprehensive sample frame of stabilized hotels, RGB used USR&E's list from the 1985 SRO Study and a listing developed by HPD for the 1991 Housing and Vacancy Survey (HVS). The original sample of hotels chosen by HPD in 1985 consisted of 1138 buildings. In the 1985 survey HPD inspectors determined that 794 buildings contained hotel units. These 794 buildings provided the initial basis for the sample frame.

To prepare the sample frame for the I&E study the 794 buildings from the 1985 list were matched with the updated list for the 1991 HVS. Staff found that 785 buildings matched with the 1991 list. All but one of the nine excluded buildings were in Staten Island.

This matched list was the starting point for staff to work toward a "cleaner" sample frame by excluding certain types of buildings. Based on additional information in the 1991 list, some of the reasons for excluding additional buildings were: vacant, dormitory,

luxury hotel, co-op/condo & non-residential, building used for specialized social services, multiple dwelling converted to a private dwelling without a properly authorized certificate of occupancy, dwellings not inspected since 1970.

RGB staff excluded 125 buildings which were in one of the above specified categories. Most of the excluded buildings fell in the co-op/condo category (30 buildings), followed by vacant buildings (27 buildings) and luxury hotels (25 buildings). Twenty out of the 27 vacant buildings were in Manhattan. There existed a similar relationship in the co-op/condo category. However, 48% of the luxury hotels were in Queens (12 out of 25 buildings). RGB staff excluded an additional 200 buildings because the number of units was less than 11. A total of 325 buildings, containing 10,859 units, were excluded.

After these adjustments, the resulting sample frame included 460 buildings with a total of 36,254 units. These buildings were determined to have stabilized hotel units in 1985 and 1991. Also, the list consisted only of hotel buildings required to file I&E forms with the Finance Department.

Sample Size and Selection

The characteristics of the stabilized stock of hotels and staff's sample frame dictated the specification of the categories and the distribution of sample units among them. At the outset, the sample size was set at 250. The first step in drawing the sample was to make sure it reflected the Hotel Section of the Rent Stabilization Law. Therefore, staff divided the sample frame into three distinct categories: Hotels, rooming houses and single room occupancy (SRO) buildings.

The next step was to distribute the sample size of 250 buildings among the 3 categories. The allocation reflects the importance of each building type in the sample frame. The number of sample buildings desired within each category were as follows:

Hotels	67
SROs	68
Rooming Houses	115
Total	250

No information pertaining to the buildings' assessed value was readily available. Thus, staff did not know what proportion of buildings in the list would meet the basic criterion of an assessed value of at least $40,000. Also, due to the likelihood that some I&E forms might be incomplete, or the possibility that some landlords did not file their I&E statements, RGB wanted to give Finance as many buildings as possible in order to obtain data for the target sample size of 250. Since the sample frame was somewhat small (containing only 460 buildings), the entire list was randomized and sent to Finance.

Data Collection and Summary Statistics

The major changes made in the I&E study of stabilized apartments have been incorporated into the hotel study. Briefly recapitulating these changes, staff requested that Finance exclude buildings with short accounting periods and with no rental income. In addition, assessors examined the miscellaneous category. Also, the assessors reclassified miscellaneous expenses if the owner provided enough information for them to do so. The Finance Department produced additional summary output for buildings without commercial space, and for those buildings with an O&M to income ratio greater than or equal to 100%.

Due to time constraints there was not any replacement if Finance did not find I&E forms for all 250 buildings. In fact, Finance could only locate and provided summary statistics for the following:

Hotels	66
SROs	67
Rooming Houses	45
Total	178

Finance staff provided the RGB with summary data on the number of buildings for

which I&E forms could not be located. The large shortfall in the number of rooming houses was due mainly to the fact that over 60% of those buildings did not meet the minimum assessed value of $40,000.

There is no detailed data for stabilized hotels in the triennial HVS. The most comprehensive study, to date, is the 1985 SRO Study. However, the list prepared for the 1991 HVS also includes estimates of the weights for the three types of hotel units. Staff decided that the best alternative was to use both the 1985 and 1991 weights in order to estimate a range of values for citywide rents and expenses. The weight assigned to each category was equivalent to the citywide share of all stabilized hotel units in that cell.

After aggregating the raw data with both sets of weights, there was not any major difference between the two figures. The difference was $4 for overall O&M costs. Therefore, only the estimates using the 1985 weights are discussed in this report.

The data is taken from the I&E forms filed with the Finance Department by September 1990. Most owners do file statements for calendar year 1989, but there may be some who reported income and expenses for later fiscal years. As a result, the average O&M expenses and income are for Fall 1989.

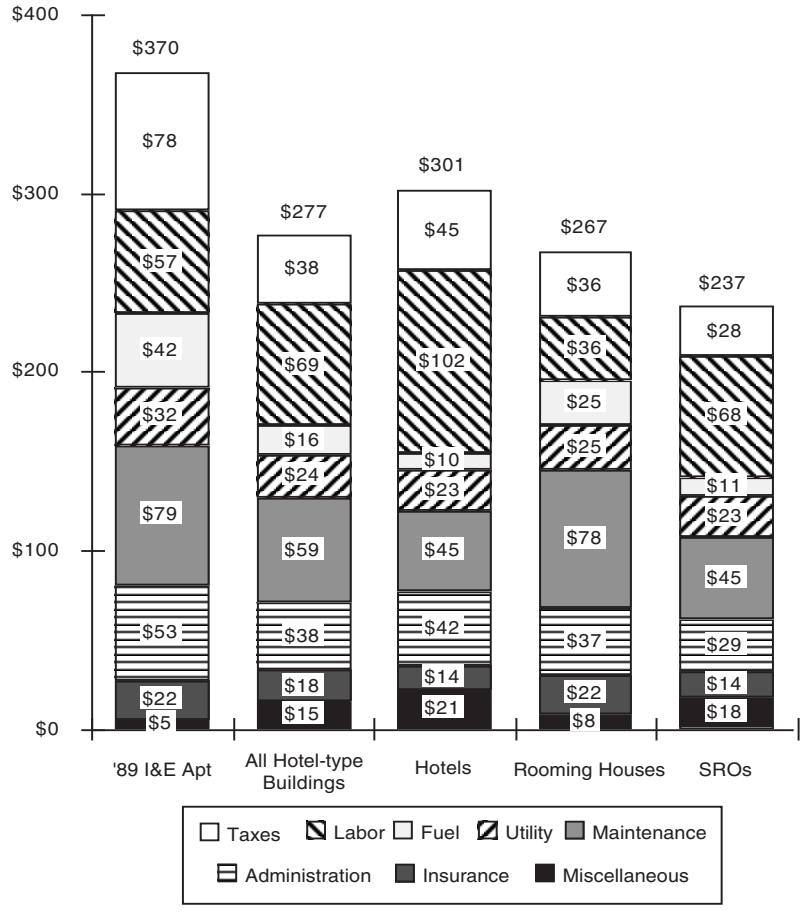
Operating & Maintenance Costs

The chart shows average O&M expenses for all stabilized hotel units, and for each of the three hotel groups: rooming houses, SROs, and hotels. In addition, we included the figures from the '89 I&E Study for the apartments. These figures have been included in order to allow for some comparisons between the two studies.

Average monthly O&M costs are estimated to be $277 for all hotel type units. The average for rooming houses and SROs are lower than the average, $267 and $237 respectively. The average monthly expenses for hotels is much higher at $301 per month. Labor and maintenance account for most of the difference in overall cost levels between the three groups.

The most obvious and striking difference is the wide difference in estimated labor costs. Hotels' labor costs

Comparison of 1989 I&E Study of Hotels with the 1989 I&E Study of Apartments



Source: Income and Expense Filings. Note: Totals may not add due to rounding.

averaged $102 per month, followed by $68 per month for SROs, and rooming houses averaged only $36 per month for labor expenses. It is also interesting to note that there is a wide gap in maintenance expenses. In rooming house units these expenses are 32% higher than the overall average maintenance costs for all stabilized hotel units, $78 versus $59. In fact, the $78 seems surprisingly high and raises some concern about the accuracy of this figure. In most of the other components, the average costs for rooming houses are about equal to or lower than the overall average.

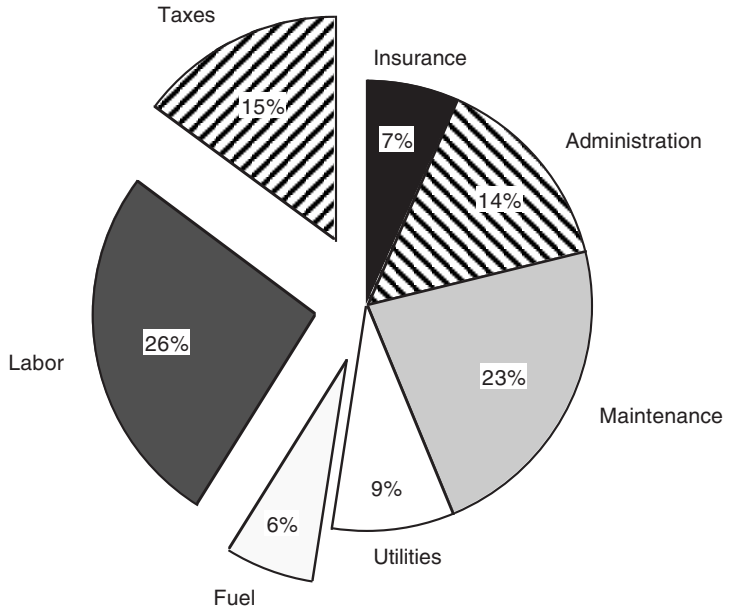
Although overall O&M is substantially different for hotels and SROs, many of the component costs are in fact remarkably similar. For instance, average expenses for utilities, maintenance, and insurance are the same; fuel expenses only differ by $1. The major differences can be attributed to labor costs and taxes and to a lesser extent administration.

The best explanation for the huge difference in labor costs between hotels and rooming houses is in building size. A rooming house can not have more than 29 units whereas hotels have a minimum of 30 units. Hence, due to labor expenses such as front desk clerks, maid services and superintendents, labor costs would tend to be higher for hotels.

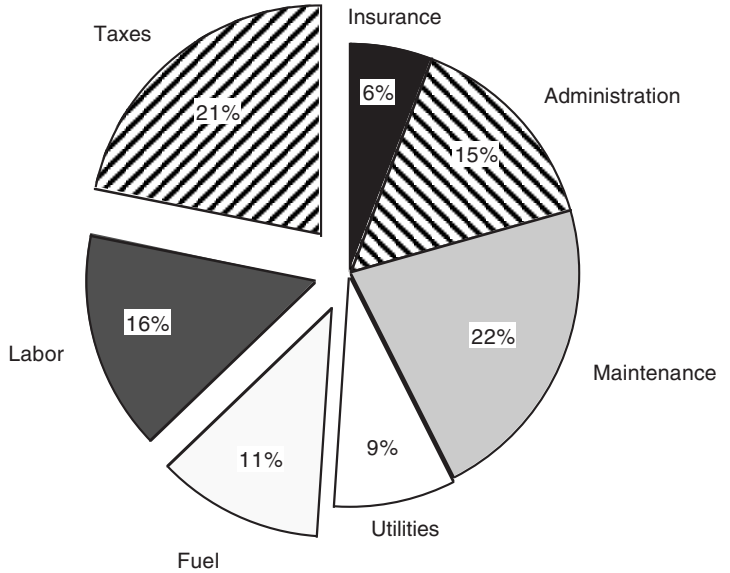
Overall expenses for apartments is $370, or $93 higher than O&M costs for all stabilized hotel units. In terms of overall cost levels, taxes, fuel, and maintenance account for most of the difference. One would, in fact, expect all three of these categories to be substantially higher for apartments than for hotel units since hotel rooms are much smaller than apartments and often lack amenities such as

Distribution of O&M Expenses

All Hotels



1989 Apartment I&E Study



Source: Income and Expense Filings.

kitchen facilities or even bathrooms. This difference is quite apparent in hotel fuel costs which are only 38% of the apartment average.

Although overall cost levels vary, the weight of most components, with the exception of the three just discussed, is quite similar for hotels and apartments. Insurance, administration, maintenance, and utilities have the same weights for both types of units. Taxes and labor do show a wide difference. In the apartment study taxes accounted for 21% of costs and 14% for hotel units. Also, labor's weight in the overall costs for all hotel units is 25% and 15% for apartments.

O&M Costs for Buildings Without Commercial Space

Average expenses for residential buildings is $253. This is approximately 9% lower than the average for all buildings. This difference between the two figures can be attributed to the small percentage of buildings with commercial units. About 16% of the buildings had commercial units. Most of the commercial units are located in SRO buildings which play a relatively small role in the computation of overall average O&M costs. Based on data from the 1985 SRO Study, SRO units accounted for only 15% of all hotel units.

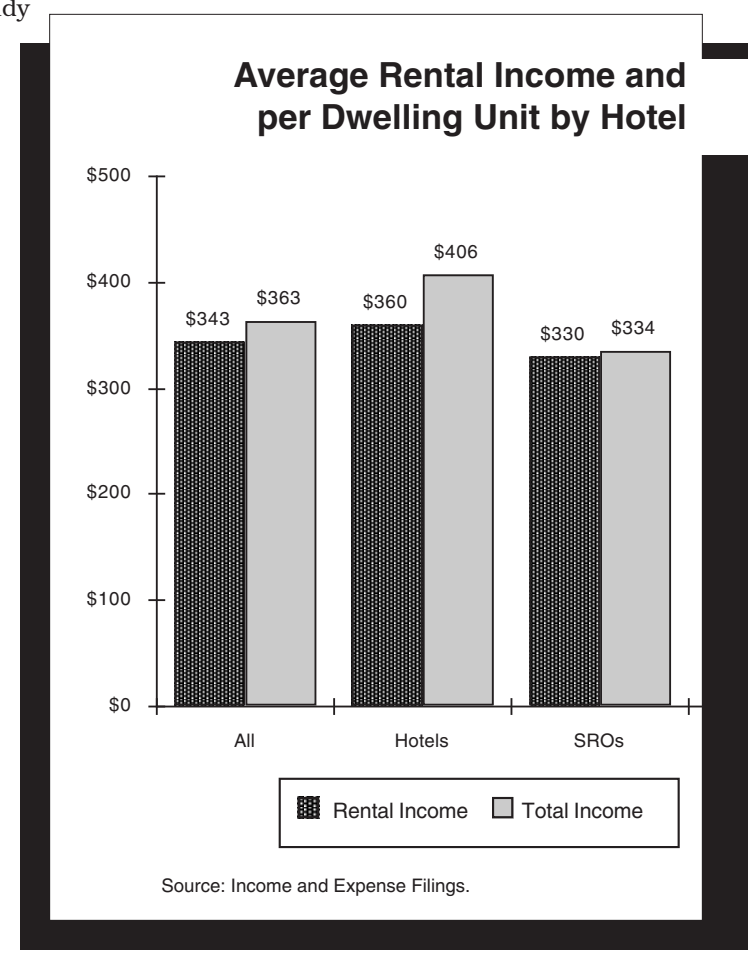
One would expect buildings with commercial units to have higher expenses. However, this is not the case for each of the hotel groups. The difference between O&M costs for all buildings versus all residential buildings is somewhat inconsistent and unusual. For hotels and SROs, overall expenses for residential buildings are higher than those for all buildings.

Income

The definitions of rent and income remain unchanged from the I&E study of apartments. Rent is defined as payments collected from tenants plus governmental rent subsidies (i.e., SCRIE and Section 8). Rental income is defined as apartment rent plus rent from offices, retail space, garage/parking, and industrial space. Total income is apartment rent plus commercial rent plus other sources of revenue such as the sale of utilities and laundry services.

In the schedule of income and expenses, no specific instructions were provided for hotel owners. In particular, the income section did not specify if the definition of "apartments" included hotel-type units, which are technically individual rooms. Therefore, the decision as to where to include rent from rooms becomes crucially important.

According to Finance Department staff, on many of the forms a substantial amount of income was reported on the line

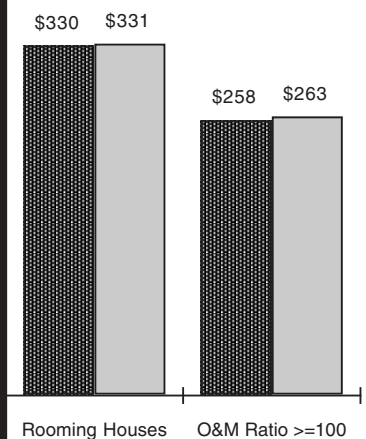


Source: Income and Expense Filings.

"other" rental income. It is uncertain exactly how much of this income is from transient tenants and whether landlords reported rent from permanent tenants on this line.

Unfortunately, since RGB does not have access to the raw data, we can not state what proportion of forms listed rent from rooms as "apartment" rental income, nor can we report if major reallocations should or would have been done. However, staff will attempt to obtain additional information from Finance to clarify this matter.

Total Income Category



O&M Ratio

The overall O&M to gross income ratio for all stabilized hotel units is .76. For SROs and hotels the ratio is lower, .71 and .74 respectively, while the rooming house O&M ratio (.81) is higher. The O&M to gross income ratio for all residential units is also .76.

These O&M to income ratios are substantially higher than those found in the apartment sector (e.g. the .65 for all stabilized apartments). The higher O&M to income ratio for hotels could reflect either lower debt levels or lower profit margins. Anecdotal evidence and the 1985 SRO survey suggest that many hotel-type buildings have long term owners who may have little mortgage debt.

The overall O&M to income ratio (.76) is comparable to the O&M to rent ratio in Table 2 of the Board's Explanatory Statement for hotels (.74). The latter ratio was originally developed by USR&E in 1985 and has been updated each year since then. The similarity between the two figures appears to be largely a matter of coincidence, however, since none of the individual hotel sectors are similar. For instance, the O&M to income ratio for SROs in this study is .71 while the figure in the explanatory statement is .57.

A strong case could be made to replace the (updated) 1985 O&M ratios with those developed in this study. As pointed out in the introduction, the 1985 study is based on a very small sample of buildings. In addition, the current data is fresher and makes no artificial distinction between rents and income. Of course, the weakness in the current data is the absence of rooming houses with fewer than 11 units or with assessed values of less than $40,000. Nonetheless, this study includes far more hotel stabilized properties than the 1985 study.

O&M to Income Ratio Over 100%

In the recent apartment I&E study we found that about 10% of the buildings in the sample had an O&M to income ratio of 100% or more. In the current study 25% of the hotel-type buildings reported a ratio of 100% or more including 16% of SROs, 26% of hotels and 36% of rooming houses.

Among the high ratio buildings income per unit was substantially below average ($263 vs. $363 for all hotels) while expenses were well above average ($363 vs. $277). It should be noted that labor costs in these buildings are extremely high - $123 vs. $69 for the sample as a whole. In fact, labor costs account for two-thirds of the difference in the average O&M figures. The remainder of the difference is spread among many of the components. ❑

Appendices

Appendix A - Guidelines Set by the Board

Apartments & Lofts

On July 5, 1991, the Rent Guidelines Board (RGB) set the following maximum rent increases for renewal leases entered on or after October 1, 1991 and on or before September 30, 1992 for rent stabilized apartments:

One-Year Lease	Two-Year Lease
4.0%	6.5%

For tenants entering new leases the increases are the same as renewal leases plus a 5% vacancy allowance. Under Order 23, owners will be permitted to collect the vacancy allowance if vacancies occur during consecutive guideline periods; that is, even if a vacancy allowance was collected for the same unit under the previous order. No vacancy allowance can be taken under Order 23, however, if the apartment first enters rent stabilization (e.g. enters rent stabilization from rent control, was a newly constructed unit, or where the owner was allowed to set a first rent due to substantial rehabilitation of the unit) during the period from October 1, 1991 to September 30, 1992.

Any increase for a renewal lease as well as any for the vacancy allowance may be collected no more than once during the guideline period (e.g. October 1, 1991 to September 30, 1992).

The Board decided not to include a supplementary rent adjustment in this year's rent guidelines.

For Loft units that have met the legalization requirements under Article 7-C of the Multiple Dwelling Law, the Board established the same guidelines as above for renewal leases. However, no vacancy allowance was included for lofts.

Leases for units subject to rent control on September 30, 1991 which subsequently become vacant and then enter the stabilization system are not subject to the above adjustments. The rents for these newly stabilized units are subject to review by the New York State Division of Housing and Community Renewal (DHCR). In order to aid DHCR in this review the RGB has set a special guideline of 15% above the Maximum Base Rent plus the current allowable fuel cost adjustments.

Hotel Units

On July 5, 1991, the RGB set a maximum allowable increase of 3.5% over the lawful rent actually charged and paid on September 30, 1991 for residential Class A hotels, lodging houses, rooming houses and Class B hotels. The allowable level of rent adjustment over the lawful rent actually charged and paid on September 30, 1991 for single room occupancy buildings shall be 2%.

The allowable increases will apply to hotel stabilized units and single room occupancy buildings with leases commencing on or after October 1, 1991 and on or before September 30, 1992. The guidelines do not limit rental levels for commercial space, non-rent stabilized residential units, or transient units in hotel stabilized buildings.

Single room occupancy buildings and Class B hotels will not be entitled to the 2% increase and will receive a zero percent adjustment if either or both of the following conditions exist:

1) The building contains 20 or more dwelling units and 10% or more of the units have been deliberately withheld from the rental market for a period exceeding thirty days; or

2) Twenty percent or more of the dwelling units in the building are not registered with the State Division of Housing and Community Renewal pursuant to part 2528 of the Rent Stabilization Code.

Appendix B - 1991 Price Index of Operating Costs for Rent Stabilized Apartments

PIOC Sample 1990 and 1991*

Spec#	Description	1990	1991
204	Payroll, Other, Non-union, All	46	55
211	Apartment Value	21	20
212	Non-Union Super	34	44
213	Non-Union Maid	4	2
214	Non-Union Desk Clerk	3	3
215	Non-Union Maint. Worker	3	1
216	Non-Union Janitor/Porter	12	11
	TOTAL LABOR COSTS	123	136
301	Fuel Oil #2	43	41
302	Fuel Oil #4	8	15
303	Fuel Oil #6	3	12
	TOTAL FUEL COSTS	54	68
501	Repainting	103	101
502	Plumbing, Faucet	42	45
503	Plumbing, Stoppage	46	51
504	Elevator #1	29	27
505	Elevator #2	25	26
506	Elevator #3	19	22
507	Burner Repair	40	42
508	Boiler Repair, Tube	27	19
509	Boiler Repair, Weld	23	13
510	Refrigerator Repair	11	17
511	Range Repair	13	13
512	Roof Repair	20	22
513	Air Conditioner Repair	11	15
514	Floor Maint. #1	17	15
515	Floor Maint. #2	17	15
516	Floor Maint. #3	17	16
518	Linen/Laundry Service	9	6
	TOTAL CONTRACTOR SERVICES	469	465
601	Management Fees	35	20
602	Accountant Fees	32	32
603	Attorney Fees	19	21
604	Newspaper Ads	4	10
605	Agency Fees	4	9
606	Lease Forms	14	4
607	Bill Envelopes	12	5
608	Ledger Paper	15	7
	TOTAL ADMINISTRATIVE COSTS	135	108
701	Insurance Costs	109	108
801	Light bulbs	16	16
802	Light Switch	15	17
803	Wet Mop	15	15
804	Floor Wax	7	10
805	Paint	15	25
806	Pushbroom	12	10
807	Detergent	8	9
808	Bucket	9	8
809	Washers	19	17
810	Linens	22	18
811	Pine Disinfectant	15	9
812	Window/Glass Cleaner	10	12
813	Switch Plate	16	12
814	Duplex Receptacle	16	13
815	Toilet Seat	23	22
816	Deck Faucet	16	15
	TOTAL PARTS & SUPPLIES	234	228
901	Refrigerator #1	19	21
902	Refrigerator #2	20	21
903	Air Conditioner #1	29	22
904	Air Conditioner #2	28	22
905	Floor Runner	12	19
906	Dishwasher	11	18
907	Range #1	16	21
908	Range #2	15	21
909	Carpet	33	22
910	Dresser	24	27
911	Mattress & Box Spring	23	29
	TOTAL REPLACEMENT COSTS	230	243
	ALL ITEMS	**1354**	**1356**

*Number of price quotes obtained for each spec.

Expenditure Weights, Price Relatives, and Standard Errors - Overall, 1991

Spec#	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error
101	TAXES, FEES, & PERMITS	0.2316	1.0981	9.81%	0.1200
201	Payroll, Bronx, All	0.1294	1.0508	5.08%	0.0000
202	Payroll, Other, Union, Supts.	0.1270	1.0363	3.63%	0.0000
203	Payroll, Other, Union, Other	0.3136	1.0347	3.47%	0.0000
204	Payroll, Other, Non-Union, All	0.2688	1.0467	4.67%	1.2312
205	Social Security Insurance	0.0508	1.0413	4.13%	0.0000
206	Unemployment Insurance	0.0062	1.0187	1.87%	0.0000
207	Private Health & Welfare	0.1042	1.1410	14.10%	0.0000
	LABOR COSTS	0.1590	1.0515	5.15%	0.3309
301	Fuel Oil #2	0.2539	1.0453	4.53%	0.6216
302	Fuel Oil #4	0.2190	1.0765	7.65%	1.6051
303	Fuel Oil #6	0.5271	1.0332	3.32%	1.0009
	FUEL	0.1223	1.0457	4.57%	0.6533
401	Electricity #1, 2,500 KWH	0.0193	0.9874	-1.26%	0.0000
402	Electricity #2, 15,000 KWH	0.2201	0.9828	-1.72%	0.0000
403	Electricity #3, 82,000 KWH	0.0000	0.9820	-1.80%	0.0000
404	Gas #1, 12,000 therms	0.0067	0.9563	-4.37%	0.0000
405	Gas #2, 65,000 therms	0.0661	0.8971	-10.29%	0.0000
406	Gas #3, 214,000 therms	0.1664	0.8910	-10.90%	0.0000
407	Steam #1, 1.2m lbs	0.0160	1.0131	1.31%	0.0000
408	Steam #2, 2.6m lbs	0.0059	1.0149	1.49%	0.0000
409	Telephone	0.0149	1.1219	12.19%	0.0000
410	Water & Sewer	0.4846	1.0804	8.04%	0.1899
	UTILITIES	0.1395	1.0118	1.18%	0.0921
501	Repainting	0.4185	1.0684	6.84%	1.0621
502	Plumbing, Faucet	0.1359	1.0454	4.54%	1.0723
503	Plumbing, Stoppage	0.1313	1.0376	3.76%	0.9520
504	Elevator #1, 6 fl., 1 e.	0.0453	1.0819	8.19%	2.6030
505	Elevator #2, 13 fl., 2 e.	0.0316	1.0788	7.88%	2.7266
506	Elevator #3, 19 fl., 3 e.	0.0199	1.0795	7.95%	3.0027
507	Burner Repair	0.0375	1.0482	4.82%	0.9473
508	Boiler Repair, Tube	0.0425	1.0437	4.37%	1.0003
509	Boiler Repair, Weld	0.0365	1.0208	2.08%	0.9035
510	Refrigerator Repair	0.0133	1.0541	5.41%	1.5584
511	Range Repair	0.0143	1.0587	5.87%	1.9304
512	Roof Repair	0.0573	1.0171	1.71%	4.0449
513	Air Conditioner Repair	0.0101	1.0316	3.16%	1.0619
514	Floor Maint. #1, Studio	0.0003	1.0059	.59%	2.2591
515	Floor Maint. #2, 1 Br.	0.0006	1.0061	.61%	2.3334
516	Floor Maint. #3, 2 Br.	0.0052	0.9918	-.82%	2.4672
	CONTRACTOR SERVICES	0.1569	1.0548	5.48%	0.5646

Spec#	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error
601	Management Fees	0.6724	1.0200	2.00%	2.4300
602	Accountant Fees	0.1398	1.0610	6.10%	1.7306
603	Attorney Fees	0.1451	1.0487	4.87%	1.5469
604	Newspaper Ads	0.0040	0.9535	-4.65%	9.9206
605	Agency Fees	0.0046	1.0624	6.24%	0.1807
606	Lease Forms	0.0115	1.0174	1.74%	2.1209
607	Bill Envelopes	0.0107	1.0204	2.04%	3.0552
608	Ledger Paper	0.0118	1.0178	1.78%	4.1674
	ADMINISTRATIVE COSTS	0.0841	1.0298	2.98%	1.6687
701	INSURANCE COSTS	0.0694	1.0440	4.40%	0.5443
801	Light Bulbs	0.0434	1.0150	1.50%	1.9454
802	Light Switch	0.0489	1.0071	.71%	2.9738
803	Wet Mop	0.0389	1.0390	3.90%	1.9890
804	Floor Wax	0.0403	1.0268	2.68%	1.3637
805	Paint	0.2133	1.0532	5.32%	1.6615
806	Pushbroom	0.0421	1.0231	2.31%	1.4016
807	Detergent	0.0348	1.0552	5.52%	1.4980
808	Bucket	0.0387	1.1077	10.77%	5.5215
809	Washers	0.1042	1.0156	1.56%	2.4983
811	Pine Disinfectant	0.0503	1.0126	1.26%	1.0552
812	Window/Glass Cleaner	0.0499	1.0688	6.88%	2.9648
813	Switch Plate	0.0398	1.0337	3.37%	1.8552
814	Duplex Receptacle	0.0388	1.0172	1.72%	2.0831
815	Toilet Seat	0.1056	1.0403	4.03%	1.7275
816	Deck Faucet	0.1110	1.0140	1.40%	1.8034
	PARTS AND SUPPLIES	0.0261	1.0355	3.55%	0.6266
901	Refrigerator #1	0.0939	1.0138	1.38%	1.2983
902	Refrigerator #2	0.4720	1.0061	.61%	1.1706
903	Air Conditioner #1	0.0174	1.0080	.80%	0.5010
904	Air Conditioner #2	0.0215	1.0096	.96%	0.5513
905	Floor Runner	0.0749	1.0586	5.86%	2.3850
906	Dishwasher	0.0496	1.0022	.22%	6.4395
907	Range #1	0.0463	1.0271	2.71%	1.1148
908	Range #2	0.2243	1.0103	1.03%	0.6760
	REPLACEMENT COSTS	0.0110	1.0126	1.26%	0.6928
	ALL ITEMS	**1.0000**	**1.0534**	**5.34%**	**0.1984**

Price Relatives and Expenditure Weights by Building Type, 1991

Spec#	Item Description	Pre-1947	Post-1947	Gas Heated	Oil Heated	MASTER METERED BLDGS
101	TAXES, FEES, & PERMITS	1.0981	1.0981	1.0981	1.0981	1.0981
201	Payroll,Bronx,All	0.1871	0.0779	0.0022	0.1649	0.0000
202	Payroll,Other,Union,Supts.	0.1340	0.1289	0.1604	0.1194	0.1008
203	Payroll,Other,Union,Other	0.1951	0.4716	0.3773	0.3070	0.4082
204	Payroll,Other,Non-Union,All	0.3799	0.1693	0.3440	0.2821	0.4044
205	Social Security Insurance	0.0484	0.0581	0.0567	0.0519	0.0492
206	Unemployment Insurance	0.0061	0.0066	0.0067	0.0065	0.0083
207	Private Health & Welfare	0.1012	0.1390	0.1012	0.1202	0.0757
	LABOR COSTS	1.0518	1.0513	1.0486	1.0521	1.0467
301	Fuel Oil #2	0.3221	0.0950	0.0065	0.2645	0.3997
302	Fuel Oil #4	0.2824	0.0956	0.1677	0.2319	0.1751
303	Fuel Oil #6	0.4438	0.8476	0.8658	0.5493	0.4700
	FUEL	1.0483	1.0382	1.0400	1.0456	1.0449
401	Electricity #1, 2,500 KWH	0.0285	0.0013	0.0301	0.0152	0.0000
402	Electricity #2, 15,000 KWH	0.1768	0.2907	0.0919	0.2762	0.0000
403	Electricity #3, 82,000 KWH	0.0000	0.0000	0.0000	0.0000	0.5867
404	Gas #1, 12,000 therms	0.0091	0.0012	0.0051	0.0073	0.0002
405	Gas #2, 65,000 therms	0.0746	0.0305	0.1360	0.0338	0.0149
406	Gas #3, 214,000 therms	0.1380	0.1676	0.4026	0.0376	0.0481
407	Steam #1, 1.2m lbs	0.0001	0.0465	0.0012	0.0001	0.0000
408	Steam #2, 2.6m lbs	0.0001	0.0172	0.0004	0.0001	0.0000
409	Telephone	0.0187	0.0130	0.0101	0.0202	0.0199
410	Water & Sewer	0.5693	0.4377	0.2774	0.6460	0.3393
	UTILITIES	1.0151	1.0057	0.9547	1.0364	1.0091
501	Repainting	0.4263	0.5040	0.5810	0.4138	0.3900
502	Plumbing, Faucet	0.1639	0.0822	0.1355	0.1396	0.1555
503	Plumbing, Stoppage	0.1566	0.0800	0.1320	0.1359	0.1514
504	Elevator #1, 6 fl., 1 e.	0.0611	0.0162	0.0197	0.0550	0.0008
505	Elevator #2, 13 fl., 2 e.	0.0172	0.0803	0.0048	0.0430	0.0938
506	Elevator #3, 19 fl., 3 e.	0.0073	0.0601	0.0436	0.0175	0.0366
507	Burner Repair	0.0397	0.0382	0.0196	0.0461	0.0349
508	Boiler Repair, Tube	0.0449	0.0432	0.0222	0.0521	0.0396
509	Boiler Repair, Weld	0.0377	0.0362	0.0186	0.0436	0.0331
510	Refrigerator Repair	0.0136	0.0150	0.0132	0.0141	0.0076
511	Range Repair	0.0148	0.0162	0.0143	0.0155	0.0082
512	Roof Repair	0.0630	0.0455	0.0405	0.0643	0.0469
513	Air Conditioner Repair	0.0028	0.0311	0.0043	0.0071	0.0364
514	Floor Maint. #1, Studio	0.0002	0.0005	0.0004	0.0004	0.0006
515	Floor Maint. #2, 1 Br.	0.0005	0.0008	0.0007	0.0006	0.0093
516	Floor Maint. #3, 2 Br.	0.0041	0.0083	0.0070	0.0054	0.0088
	CONTRACTOR SERVICES	1.0536	1.0579	1.0574	1.0541	1.0535

Spec#	Item Description	Pre-1947	Post-1947	Gas Heated	Oil Heated	MASTER METERED BLDGS
601	Management Fees	0.6087	0.7830	0.6338	0.6918	0.4625
602	Accountant Fees	0.1740	0.1161	0.1046	0.1584	0.3578
603	Attorney Fees	0.1893	0.1056	0.2540	0.1350	0.1543
604	Newspaper Ads	0.0046	0.0027	0.0063	0.0034	0.0038
605	Agency Fees	0.0060	0.0035	0.0081	0.0044	0.0049
606	Lease Forms	0.0166	0.0056	0.0081	0.0124	0.0185
607	Bill Envelopes	0.0155	0.0051	0.0076	0.0116	0.0172
608	Ledger Paper	0.0171	0.0056	0.0083	0.0127	0.0189
	ADMINISTRATIVE COSTS	1.0317	1.0273	1.0308	1.0297	1.0379
701	INSURANCE COSTS	1.0440	1.0440	1.0440	1.0440	1.0440
801	Light Bulbs	0.0431	0.0462	0.0450	0.0437	0.0847
802	Light Switch	0.0482	0.0516	0.0504	0.0489	0.0948
803	Wet Mop	0.0381	0.0456	0.0324	0.0444	0.0522
804	Floor Wax	0.0390	0.0467	0.0332	0.0454	0.0534
805	Paint	0.2268	0.2198	0.2543	0.2163	0.1161
806	Pushbroom	0.0428	0.0436	0.0309	0.0424	0.0498
807	Detergent	0.0346	0.0414	0.0294	0.0403	0.0474
808	Bucket	0.0405	0.0484	0.0343	0.0470	0.0553
809	Washers	0.1109	0.0943	0.1142	0.1016	0.0568
811	Pine Disinfectant	0.0499	0.0534	0.0521	0.0507	0.0981
812	Window/Glass Cleaner	0.0522	0.0558	0.0545	0.0529	0.1025
813	Switch Plate	0.0388	0.0464	0.0330	0.0451	0.0531
814	Duplex Receptacle	0.0373	0.0446	0.0316	0.0434	0.0510
815	Toilet Seat	0.1151	0.0979	0.1185	0.1056	0.0589
816	Deck Faucet	0.1179	0.1003	0.1214	0.1081	0.0603
	PARTS AND SUPPLIES	1.0352	1.0361	1.0353	1.0358	1.0345
901	Refrigerator #1	0.0917	0.1034	0.0762	0.1037	0.0857
902	Refrigerator #2	0.4677	0.4920	0.3885	0.4934	0.4079
903	Air Conditioner #1	0.0092	0.0370	0.0233	0.0155	0.0113
904	Air Conditioner #2	0.0115	0.0458	0.0288	0.0193	0.0140
905	Floor Runner	0.0749	0.0897	0.0414	0.0900	0.2184
906	Dishwasher	0.0427	0.0660	0.1543	0.0241	0.0149
907	Range #1	0.0541	0.0324	0.0511	0.0486	0.0486
908	Range #2	0.2609	0.1463	0.2467	0.2186	0.2187
	REPLACEMENT COSTS	1.0126	1.0126	1.0104	1.0133	1.0195
	ALL ITEMS	**1.0503**	**1.0562**	**1.0328**	**1.0564**	**1.0535**

Distribution of Matched 1990 and 1991 Tax Sample by Borough and Building Size

	1-9	10-19	20-29	30-39	40-49	50-99	100+	Total
Manhattan	5,663	4,431	1,710	712	456	625	354	13,951
	(14.78)	(11.57)	(4.46)	(1.86)	(1.19)	(1.63)	(.92)	(36.42)
Bronx	863	800	775	540	552	874	80	4,484
	(2.25)	(2.09)	(2.09)	(1.41)	(1.44)	(2.28)	(.21)	(11.71)
Brooklyn	8,504	1,816	808	656	390	722	126	13,022
	(22.20)	(4.74)	(2.11)	(1.71)	(1.02)	(1.88)	(.33)	(33.99)
Queens	3,841	985	472	324	248	553	232	6,655
	(10.03)	(2.57)	(1.23)	(.85)	(.65)	(1.44)	(.61)	(17.37)
Staten Island	94	48	21	9	5	11	8	196
	(.25)	(.13)	(.05)	(.02)	(.01)	(.03)	(.02)	(.51)
Total	**18,965**	**8,080**	**3,786**	**2,241**	**1,651**	**2,785**	**800**	**38,308**
	(49.51)	**(21.09)**	**(9.88)**	**(5.85)**	**(4.31)**	**(7.27)**	**(2.09)**	**(100.00)**

Excluding In-Rem Properties

Manhattan	4,998	3,781	1,402	604	409	567	327	12,088
	(14.78)	(11.18)	(4.14)	(1.79)	(1.21)	(1.68)	(.97)	(35.74)
Bronx	733	645	653	466	478	768	71	3,814
	(2.17)	(1.91)	(1.93)	(1.38)	(1.41)	(2.27)	(.21)	(11.28)
Brooklyn	7,430	1,541	712	582	349	661	119	11,394
	(21.97)	(4.56)	(2.10)	(1.72)	(1.03)	(1.95)	(.35)	(33.68)
Queens	3,691	939	440	304	240	518	219	6,351
	(10.91)	(2.78)	(1.30)	(.90)	(.71)	(1.53)	(.65)	(18.78)
Staten Island	88	41	20	7	4	11	8	179
	(.26)	(.12)	(.06)	(.02)	(.01)	(.03)	(.02)	(.53)
Total	**16,940**	**6,947**	**3,227**	**1,963**	**1,480**	**2,525**	**744**	**33,826**
	(50.08)	**(20.54)**	**(9.54)**	**(5.80)**	**(4.38)**	**(7.46)**	**(2.20)**	**(100.0)**

Percentage Change in Real Estate Tax Sample by Borough and Source of Change

	% Change Due to Assessments	% Change Due to Exemptions	% Change Due to Abatements	% Change Due to Tax Rate	% Change Due to Tax Rate and Assessment	Total Percent Change
Manhattan (Below 96th St)	8.38%	1.86%	0.13%	0.20%	0.04%	10.59%
Manhattan (Above 96th St)	8.44%	-1.02%	-0.53%	0.20%	0.01%	7.11%
All Manhattan	8.40%	1.56%	0.06%	0.20%	0.04%	10.24%
Bronx	13.20%	-1.11%	-1.29%	0.20%	0.00%	11.02%
Brooklyn	8.92%	-0.81%	-0.61%	0.20%	0.01%	7.72%
Queens	9.80%	0.00%	-0.61%	0.20%	0.00%	9.41%
Staten Island	9.83%	-0.88%	-0.66%	0.20%	0.00%	8.51%
Total	**9.13%**	**0.73%**	**-0.27%**	**0.20%**	**0.02%**	**9.81%**

Tax Change by Borough and Community Board

Borough	Community Board	Number of Buildings	Tax Relatives
Manhattan	**All**	**12,088**	**10.24**
	1	26	8.39
	2	1,174	12.13
	3	1,304	15.47
	4	963	14.63
	5	334	11.27
	6	984	9.26
	7	2,217	9.69
	8	2,445	9.76
	9	542	0.74
	10	353	3.01
	11	410	15.67
	12	1,215	9.47
	Unknown	121	10.38
Bronx	**All**	**3,814**	**11.02**
	1	177	18.02
	2	110	13.25
	3	102	24.12
	4	401	7.45
	5	463	13.17
	6	328	12.60
	7	834	12.81
	8	342	9.62
	9	295	11.82
	10	128	0.45
	11	268	13.16
	12	359	12.87
	Unknown	7	53.30
Brooklyn	**All**	**11,394**	**7.72**
	1	1,467	22.53
	2	633	0.95
	3	503	16.82
	4	1,228	6.93
	5	253	10.50
Brooklyn (con't)	6	974	11.85
	7	831	12.62
	8	717	14.62
	9	435	10.39
	10	846	6.23
	11	769	11.05
	12	648	9.23
	13	175	-0.66
	14	776	8.90
	15	357	0.94
	16	145	4.37
	17	554	13.10
	18	64	10.42
	Unknown	19	3.21
Queens	**All**	**6,351**	**9.41**
	1	1,903	18.30
	2	866	13.43
	3	385	19.72
	4	366	11.40
	5	1,242	7.80
	6	332	5.39
	7	396	9.80
	8	149	2.30
	9	206	7.51
	10	83	8.53
	11	106	2.71
	12	149	10.83
	13	55	5.31
	14	69	34.23
	Unknown	44	3.20
Staten Island	**All**	**179**	**8.51**
	1	111	9.20
	2	46	7.64
	3	20	6.68
	Unknown	2	-8.13

Appendix C - 1991 Price Index of Operating Costs for Rent Stabilized Lofts

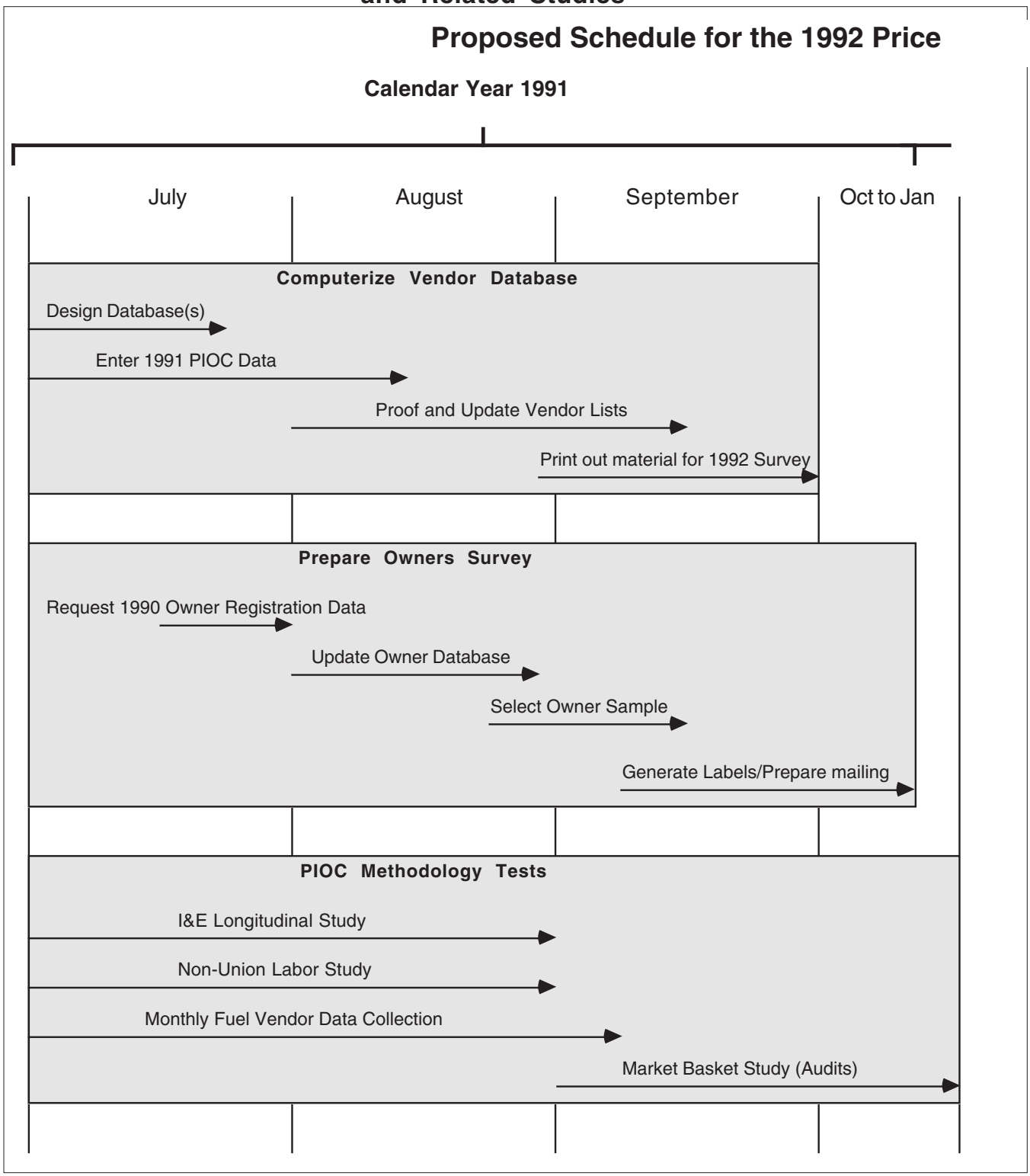
Expenditure Weights and Price Relatives, All Lofts, 1991

	Item Description	Weights	Heat Incl. Relative	Weights	All Lofts
101	TAXES, FEES, & PERMITS	0.2287	1.0981	0.2203	1.0981
201	Payroll, Bronx, All	0.0000	1.0508	0.0000	1.0508
202	Payroll, Other, Union, Supts.	0.3204	1.0363	0.3204	1.0363
203	Payroll, Other, Union, Other	0.0000	1.0347	0.0000	1.0347
204	Payroll, Other, Non-Union, All	0.5214	1.0467	0.5214	1.0467
205	Social Security Insurance	0.0508	1.0413	0.0508	1.0413
206	Unemployment Insurance	0.0068	1.0187	0.0068	1.0187
207	Private Health & Welfare	0.1006	1.1410	0.1006	1.1410
	LABOR COSTS	0.0830	1.0524	0.1032	1.0524
301	Fuel Oil #2	0.3263	1.0460	0.3263	1.0460
302	Fuel Oil #4	0.5609	1.0772	0.5609	1.0772
303	Fuel Oil #6	0.1128	1.0338	0.1128	1.0338
	FUEL	0.0748	1.0621	0.0776	1.0621
401	Electricity #1, 2,500 KWH	0.0193	0.9874	0.0193	0.9874
402	Electricity #2, 15,000 KWH	0.2201	0.9828	0.2201	0.9828
403	Electricity #3, 82,000 KWH	0.0000	0.9820	0.0000	0.9820
404	Gas #1, 12,000 therms	0.0067	0.9563	0.0067	0.9563
405	Gas #2, 65,000 therms	0.0661	0.8971	0.0661	0.8971
406	Gas #3, 214,000 therms	0.1664	0.8910	0.1664	0.8910
407	Steam #1, 1.2m lbs	0.0160	1.0131	0.0160	1.0131
408	Steam #2, 2.6m lbs	0.0059	1.0149	0.0059	1.0149
409	Telephone	0.0149	1.1219	0.0149	1.1219
410	Water & Sewer	0.4846	1.0804	0.4846	1.0804
	UTILITIES	0.0647	1.0118	0.0767	1.0118
501	Repainting	0.4185	1.0684	0.4185	1.0684
502	Plumbing, Faucet	0.1359	1.0454	0.1359	1.0454
503	Plumbing, Stoppage	0.1313	1.0376	0.1313	1.0376
504	Elevator #1, 6 fl., 1 e.	0.0453	1.0819	0.0453	1.0819
505	Elevator #2, 13 fl., 2 e.	0.0316	1.0788	0.0316	1.0788
506	Elevator #3, 19 fl., 3 e.	0.0199	1.0795	0.0199	1.0795
507	Burner Repair	0.0375	1.0482	0.0375	1.0482
508	Boiler Repair, Tube	0.0425	1.0437	0.0425	1.0437
509	Boiler Repair, Weld	0.0365	1.0208	0.0365	1.0208
510	Refrigerator Repair	0.0133	1.0541	0.0133	1.0541
511	Range Repair	0.0143	1.0587	0.0143	1.0587

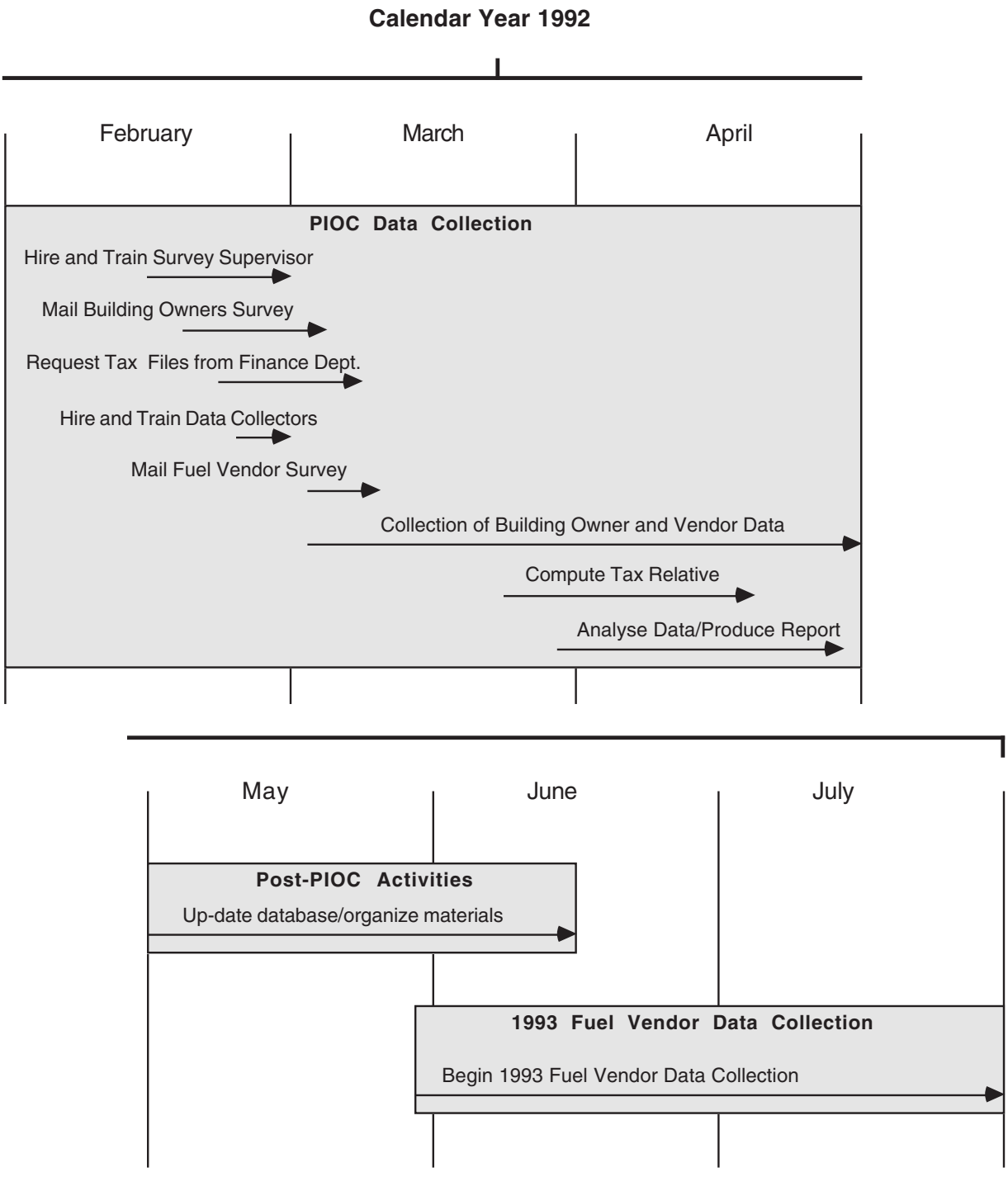
512	Roof Repair	0.0573	1.0171	0.0573	1.0171
513	Air Conditioner Repair	0.0101	1.0316	0.0101	1.0316
514	Floor Maint. #1, Studio	0.0003	1.0059	0.0003	1.0059
515	Floor Maint. #2, 1 Br.	0.0006	1.0061	0.0006	1.0061
516	Floor Maint. #3, 2 Br.	0.0052	0.9918	0.0052	0.9918
	CONTRACTOR SERVICES	0.0945	1.0548	0.0846	1.0548
	ADMINISTRATIVE COSTS, LEGAL	0.1100	1.0487	0.1183	1.0487
601	Management Fees	0.7943	1.0200	0.7943	1.0200
602	Accountant Fees	0.1533	1.0610	0.1533	1.0610
604	Newspaper Ads	0.0049	0.9535	0.0049	0.9535
605	Agency Fees	0.0058	1.0624	0.0058	1.0624
606	Lease Forms	0.0128	1.0174	0.0128	1.0174
607	Bill Envelopes	0.0140	1.0204	0.0140	1.0204
608	Ledger Paper	0.0151	1.0178	0.0151	1.0178
	ADMINISTRATIVE COSTS - OTHER	0.1181	1.0261	0.1007	1.0261
701	INSURANCE COSTS	0.1847	1.0440	0.1693	1.0440
801	Light Bulbs	0.0434	1.0150	0.0434	1.0150
802	Light Switch	0.0489	1.0071	0.0489	1.0071
803	Wet Mop	0.0389	1.0390	0.0389	1.0390
804	Floor Wax	0.0403	1.0268	0.0403	1.0268
805	Paint	0.2133	1.0532	0.2133	1.0532
806	Pushbroom	0.0421	1.0231	0.0421	1.0231
807	Detergent	0.0348	1.0552	0.0348	1.0552
808	Bucket	0.0387	1.1077	0.0387	1.1077
809	Washers	0.1042	1.0156	0.1042	1.0156
811	Pine Disinfectant	0.0503	1.0126	0.0503	1.0126
812	Window/Glass Cleaner	0.0499	1.0688	0.0499	1.0688
813	Switch Plate	0.0398	1.0337	0.0398	1.0337
814	Duplex Receptacle	0.0388	1.0172	0.0388	1.0172
815	Toilet Seat	0.1056	1.0403	0.1056	1.0403
816	Deck Faucet	0.1110	1.0140	0.1110	1.0140
	PARTS AND SUPPLIES	0.0255	1.0355	0.0274	1.0355
901	Refrigerator #1	0.0939	1.0138	0.0939	1.0138
902	Refrigerator #2	0.4720	1.0061	0.4720	1.0061
903	Air Conditioner #1	0.0174	1.0080	0.0174	1.0080
904	Air Conditioner #2	0.0215	1.0096	0.0215	1.0096
905	Floor Runner	0.0749	1.0586	0.0749	1.0586
906	Dishwasher	0.0496	1.0022	0.0496	1.0022
907	Range #1	0.0463	1.0271	0.0463	1.0271
908	Range #2	0.2243	1.0103	0.2243	1.0103
	REPLACEMENT COSTS	0.0161	1.0126	0.0218	1.0126
	ALL ITEMS	**1.0000**	**1.0551**	**1.0000**	**1.0544**

Appendix D - PIOC Methodology

Proposed Schedule for the 1992 Price Index of Operating Costs and Related Studies



Index of Operating Cost and Related Studies



Appendix E - Rent GuidelinesBoard Annual Mortgage Survey

Interest Rate for New Financing and Refinancing*

Institution	Rate	Points	Term (yrs)	Type	Condition
B-01	11.00%	1	5	Fixed	Asbestos Report
B-05	10.00%	1	5	Fixed	NA
B-27	10.50%	1	10	Adjustable	NA
B-29	11.00%	1	5	Fixed	NA
B-34	12.00%	1	5	Adjustable	Balloon-15 Yrs
B-62	10.75%	1.5	10	Adjustable	Fixed/Ajustable, Each for 5 Yrs.
B-63	10.50%	1	5	Fixed	25 Yrs Payout
B-65	10.50%	1	5	Fixed	25 Yrs Amort
B-66	11.50%	1.5	5	Fixed	NA
B-67	10.50%	2	5	Fixed	NA
B-70	9.75%	1	5	Fixed	NA
B-71	10.38%	1	5	Fixed	NA
B-72	9.50%	2	15	Fixed	NA
B-77	10.50%	1	5	Both	NA
B-78	10.38%	1	5	Adjustable	1 Yr ARM
C-04	10.00%	1.5	30	Both	NA
C-08	11.50%	1	5	NA	5 Yrs+1 Yrs Amort
SL-15	11.00%	1.5	15	Adjustable	NA
SL-58	12.00%	2.25	NA	Adjustable	NA
Average	**10.70%**	**1.28**	**8.06**		

*The difference between new interest rate and refinancing interest rate is negligible.

Note: The codes are: B - Banks, C - Commercial Banks, and SL - Savings & Loans. Fifteen institutions were removed from the sample for the following reasons: four banks, two commercial banks, and three Savings & Loans were no longer in the mortgage market. One bank, one commercial bank, and two savings & loans were under RTC or FDIC management. One commercial bank and one savings & loan provided mortgage loans on a case by case basis, thus they did not have a standard loan rate. The identifying codes for these institutions were B-04, B-06, B-61, B-75, B-80, C-07, C-15, C-20, C-22, SL-23, SL-51, SL-52, SL-57 and SL-80.

Comparison of Responses Between 1990 and 1991

	New Interest Rate		Refinancing Rate		Points		Term		Type	
	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991
B-05	10.25%	10.00%	10.25%	10.00%	1.00	1.00	5.00	5.00	F	F
B-27	10.75%	10.25%	10.75%	10.25%	1.00	1.00	10.00	10.00	A	A
B-29	11.00%	11.00%	11.00%	11.00%	1.00	1.00	5.00	5.00	F	F
B-62	11.50%	11.00%	11.50%	11.00%	1.25	1.50	10.00	10.00	Both	Both
B-63	10.88%	10.50%	10.88%	10.50%	1.25	1.00	5.00	10.00	F	Both
B-65	10.50%	10.50%	10.50%	10.50%	1.00	1.00	5.00	5.00	F	F
B-66	10.75%	11.50%	10.75%	11.50%	1.25	1.50	5.00	5.00	A	F
B-67	10.50%	10.75%	10.50%	10.75%	1.00	2.00	5.00	5.00	F	F
B-70	10.50%	9.75%	10.50%	9.75%	1.50	1.00	5.00	5.00	F	F
B-71	10.50%	10.38%	10.50%	10.38%	1.00	1.00	5.00	5.00	F	F
B-78	11.13%	10.38%	11.13%	10.38%	1.00	1.00	5.00	5.00	F	A
SL-58	11.50%	NA	11.50%	NA	2.50	2.25	5.00	NA	A	A
Average	**10.80%**	**10.55%**	**10.81%**	**10.55%**	**1.23**	**1.27**	**5.83**	**6.36**		

Note: F = Fixed, A = Adjustable, OOM = Out of Market.

Loan Characteristics

Institution	Loan Value Ratio	Operating Income	Vacancy Loss	Monthly O&M Cost Per Unit
B-01	75%	25%	3%	$375
B-27	70%	NA*	NA	Decreased
B-29	65%	30%	1%	$225
B-34	65%	5%	6%	$525
B-62	75%	20%	5%	$275
B-63	70%	30%	3%	$575
B-65	50%	30%	3%	$625
B-66	65%	15%	3%	$575
B-67	65%	30%	5%	$575
B-70	65%	30%	1%	$275
B-71	70%	30%	2%	$900
B-72	65%	30%	6%	$575
B-77	70%	30%	5%	$475
B-78	75%	30%	4%	$275
C-04	80%	10%	5%	$275
C-08	NA	NA	NA	NA
C-22	70%	NA	5%	NA
SL-15	70%	NA	NA	NA
SL-58	70%	30%	5%	$275
SL-80	60%	NA	5%	NA
Average	**68.2%**	**25.0%**	**3.9%**	**$453**

*Not all Respondents answered the survey fully.

Building Characteristics

Institution*	Borough	Year Constructed	Owner as an Occupant	Years Owned	No. of Rent-Controlled Units	No. of Rent-Stabilized Units	Total Units	Appraised Value
B-01	2	1	1	2	2	2	2	3
B-27	NA	2	1	1	NA	NA	2	3
B-29	3	2	3	3	2	2	2	3
B-34	NA	NA	3	3	3	3	NA	2
B-62	1	1	2	1	3	1	1	3
B-63	2	2	NA	2	1	2	2	3
B-65	1	2	1	2	3	2	2	3
B-66	2	1	1	2	1	1	1	3
B-67	1	1	3	3	3	3	2	3
B-70	1	2	1	3	1	1	1	3
B-71	NA	NA	NA	2	NA	NA	NA	3
B-72	1	2	1	2	3	3	2	3
B-77	3	3	2	2	3	2	2	3
B-78	2	2	1	2	3	3	3	3
C-08	NA	NA	NA	NA	NA	NA	NA	3
C-22	NA	2	1	2	3	3	3	3
SL-15	NA	NA	NA	NA	2	2	2	3
SL-58	3	2	NA	2	3	3	1	3
SL-80	NA	1	1	1	3	3	3	3
Average	**1.83**	**1.73**	**1.57**	**2.06**	**2.44**	**2.25**	**1.94**	**2.95**

*Note: Not all respondents who still offer mortgages answered this section fully. An answer of 3 means this characteristic is very important in the assessment of

and Loan Criteria

Conversion Potential	Average Per Month	Average Monthly O&M	Collection Loss	Net Oper. Income	Loan to Value Ratio	Condition of Building	Building Maintenance	Prior Loan Experience
1	2	3	3	3	3	3	3	3
1	3	3	3	3	3	3	3	3
3	2	3	3	3	3	3	3	3
NA	3	3	3	3	2	3	3	3
3	3	3	3	3	3	3	3	3
1	2	3	3	3	3	3	3	3
2	3	3	3	3	3	3	3	3
1	2	3	3	3	3	2	2	1
2	2	3	3	3	2	2	2	2
1	3	3	3	3	3	3	3	3
NA	3	3	3	3	3	3	3	1
1	2	3	3	3	3	3	2	3
2	3	3	3	3	3	3	3	3
1	2	2	2	3	3	3	3	3
NA	2	2	3	3	2	2	2	3
NA	3	3	3	3	3	3	3	2
NA	3	3	3	3	3	3	3	3
NA	3	3	3	3	3	3	3	3
1	3	1	3	3	3	3	3	3
1.54	**2.58**	**2.79**	**2.95**	**3.00**	**2.84**	**2.84**	**2.79**	**2.68**

an application; 1 is least important. "NA" means this characteristic is not considered by the institutuion.

Appendix F - Owner Income and Expense Study

1989 Income and Expense Study Sample

	Pre '47 Sample			Post '46 Sample		
	11-19 units	20-99 units	100+ units	11-19 units	20-99 units	100+ units
Bronx	**20**	**41**	**NA**	**NA**	**20**	**20**
	(.0121)	(.1493)	NA	NA	(.0216)	(.0086)
	(.0171)	(.2111)	NA	NA	(.0738)	(.0292)
Brooklyn	**20**	**33**	**NA**	**NA**	**28**	**20**
	(.0240)	(.1329)	NA	NA	(.0338)	(.0209)
	(.0339)	(.1879)	NA	NA	(.1154)	(.0714)
Manhattan	**20**	**56**	**NA**	**NA**	**20**	**40**
	(.0682)	(.1789)	NA	NA	(.0206)	(.0852)
	(.0965)	(.2530)	NA	NA	(.0704)	(.2908)
Queens	**20**	**20**	**NA**	**NA**	**31**	**31**
	(.0133)	(.0663)	NA	NA	(.0455)	(.0464)
	(.0188)	(.0938)	NA	NA	(.1554)	(.1586)
All Boroughs	**NA**	**NA**	**20**	**20**	**NA**	**NA**
	NA	NA	(.0622)	(.0072)	NA	NA
	NA	NA	(.0879)	(.0217)	NA	NA
Staten Island	(All buildings have 20+ units)		**20**			
	NA	(.0039)	NA	NA	NA	NA
	NA	(.0133)	NA	NA	NA	NA

Source: 1987 NYC Housing and Vacancy Survey.

Note: The first figure is the number of buildings selected for that cell (e.g. 20 buildings in Pre '47 11-19 unit buildings in the Bronx). The second figure is the proportion of All Stabilized units in the city accounted for

1988 Income and Expense Study and 1982 Expenditure Study
Average Monthly Operating and Maintenance Costs Per Unit by Component

	1988 I&E			1982 Expenditure Survey		
	Post-46	Pre-47	All	Post-46	Pre-47	All
Taxes	$121.88	$43.28	$66.06	$119.60	$42.14	$67.20
Labor	$77.02	$30.54	$44.26	$79.13	$38.96	$51.63
Fuel	$34.58	$45.23	$42.05	$34.58	$43.08	$39.90
Utilities	$42.53	$25.85	$30.31	$45.98	$36.43	$39.64
Maintenance	$77.26	$69.87	$71.98	$56.09	$63.52	$61.40
Administration	$54.83	$34.19	$39.62	$38.70	$21.37	$26.77
Insurance	$23.35	$25.38	$24.37	$20.30	$25.38	$23.35
Miscellaneous	$37.59	$29.00	$32.00	NA	NA	NA
Total O&M	**$469.02**	**$303.35**	**$350.66**	**$394.38**	**$270.88**	**$309.89**

Source: NYC Department of Finance, Income and Expense filings, 1982 Expenditure Survey, *Price Index of Operating Costs*, 1989 and 1990.

Note: 1988 I&E figures have been altered to remove last year's commercial unit adjustment and to increase all components by the changes in the PIOC. 1982 Expenditure Study figures have been updated by the PIOC to Fall '89.Totals may not add due to rounding.

Average Monthly O&M Costs and Average Income Per Unit, All Buildings

	Post-46	Pre-47	All
Taxes	$119.57	$60.99	$78.15
Labor	$85.74	$45.30	$57.14
Fuel	$34.11	$45.96	$42.49
Utilities	$39.09	$28.67	$31.73
Maintenance	$76.19	$80.83	$79.47
Administration	$64.96	$48.56	$53.36
Insurance	$18.90	$23.66	$22.27
Miscellaneous	$6.34	$4.09	$4.75
Total O&M	$444.97	$338.79	$369.88
Apartment Rent	$650.50	$454.55	$511.93
Rental Income	$708.32	$500.80	$561.57
Gross Income	$717.11	$505.25	$567.29

Source: NYC Department of Finance, Income and Expense filings.

Note: Totals may not add due to rounding.

Average Monthly O& M Costs and Average Income Per Unit, Buildings With O&M to Income Ratio Greater or Equal to 100%

	All Buildings	Residential Buildings
Taxes	$81.12	$82.39
Labor	$60.94	$62.19
Fuel	$45.34	$45.08
Utilities	$39.48	$39.69
Maintenance	$135.38	$138.11
Administration	$63.74	$65.14
Insurance	$20.14	$20.02
Miscellaneous	$11.13	$11.22
Total O&M	$457.27	$463.84
Apartment Rent	$352.84	$355.74
Rental Income	$373.60	$376.79
Gross Income	$376.17	$379.47

Source: NYC Department of Finance, Income and Expense filings.

Note: Totals may not add due to rounding.

Average Monthly O&M Costs and Average Income Per Unit, All Residential Buildings

	Post-46	Pre-47	All
Taxes	$118.71	$58.53	$76.15
Labor	$78.44	$44.22	$54.24
Fuel	$33.72	$46.36	$42.66
Utilities	$39.20	$28.06	$31.32
Maintenance	$70.53	$83.73	$79.86
Administration	$64.78	$45.64	$51.25
Insurance	$18.19	$23.06	$21.63
Miscellaneous	$8.06	$4.05	$5.23
Total O&M	$431.69	$334.74	$363.13
Apartment Rent	$647.59	$425.52	$490.55
Rental Income	$683.92	$448.33	$517.32
Gross Income	$692.83	$450.99	$521.81

Source: NYC Department of Finance, Income and Expense filings.

Note: Residential buildings is the sub-sample of buildings without commercial units. Totals may not add due to rounding.

I&E Schedule

I&E Schedule

Output Summary

Appendix G - Energy Efficiency in Rent Stabilized Buildings

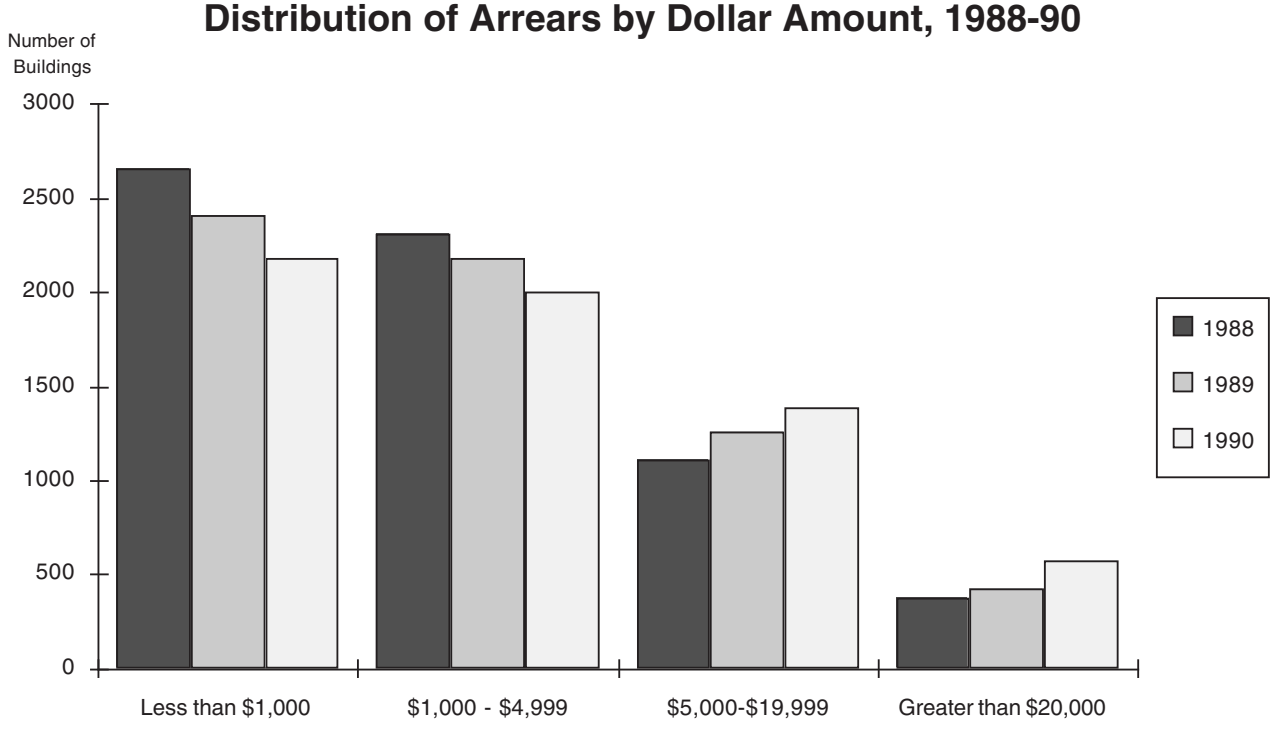
Energy Efficiency in Rent Stabilized Buildings

Oil Expenditure Weight		Desirable Consumption Level (gals)		Average Cost/Gal Weighted by Normal DD Yr.		Total Cost
.254	x	600	x	1.0792	=	164.47
.219	x	574	x	.7806	=	98.13
.527	x	556	x	.6880	=	201.59
Total Estimated Cost of Operation at Low End of Efficiency Range:						**$464.19**
.254	x	650	x	1.0792	=	164.47
.219	x	622	x	.7806	=	98.13
.527	x	602	x	.6880	=	201.59
Total Estimated Cost of Operation at High End of Efficiency Range:						**$502.78**

Source: 1989 *Price Index of Operating Costs*, Building Energy Use Tracking Report, 1989, RGB Staff calculations.

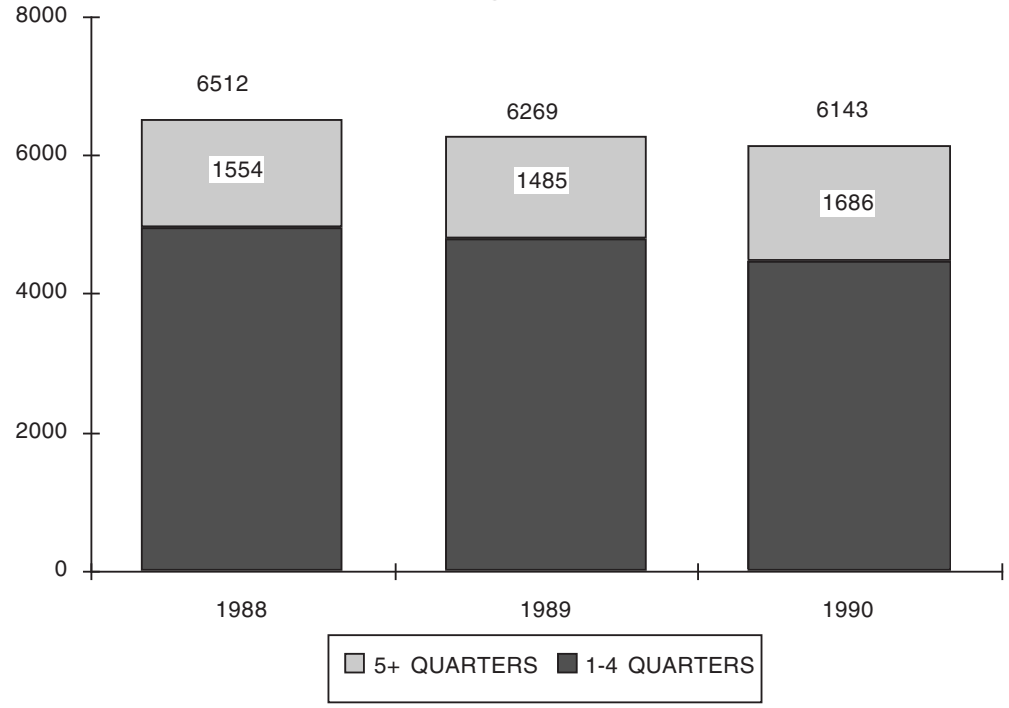
Appendix H - Real Estate Tax Arrearage

Distribution of Arrears by Dollar Amount, 1988-90



Source: Department of City Planning Computer Information Services.

Number of Buildings in Arrears, 1988-90



Source: Department of City Planning Computer Information Services.

Appendix I - O&M Costs in In-Rem Housing

In-Rem Housing

Expenses Per Dwelling Unit Per Month (FY 1988 - FY 1991)

	1988	1989	1990	1991(BUDGET)
Taxes, Fees & Permits	NA	NA	NA	NA
Labor Cost	$72.50	$115.50	$114.83	$126.75
Fuel	$59.25	$89.42	$78.33	$75.92
Utilities	$25.25	$25.75	$28.17	$26.92
Contractor Services	$135.92	$63.42	$64.00	$62.17
Administrative Services	NA	NA	NA	NA
Insurance	NA	NA	NA	NA
Parts & Supplies	$15.33	$22.00	$25.83	$23.42
Other (Boiler Repairs)	$17.83	$12.42	$13.75	$16.25
Total Operating Costs	**$326**	**$329**	**$325**	**$331**

Source: Department of Housing Preservation and Development, Office of Property Management.

Note: Fiscal year 1991 figures are planned numbers. In-Rem buildings are not subject to real estate taxes. Costs for administrative services were not available. It was impossible to determine insurance costs since the city is self-insured. Totals may not add due to rounding.

Appendix J - Tenant Income and Housing Affordability

Current Per Capita Personal Income by Borough, 1984-89

	1984	1985	1986	1987	1988	1989
Current Dollars						
Bronx	$10,895	$11,376	$11,794	$12,305	$13,303	$14,234
Brooklyn	$11,755	$12,292	$12,881	$13,532	$14,612	$15,683
New York	$24,291	$26,169	$27,671	$29,959	$32,905	$35,193
Queens	$14,707	$15,318	$16,108	$17,015	$18,435	$19,835
Staten Island	$15,435	$16,455	$17,739	$18,950	$20,476	$21,746
Citywide	$15,136	$15,983	$16,820	$17,880	$19,455	$20,855
CPI	104.8	108.7	112.3	118	123.7	130.6
Constant 1984 Dollars						
Bronx	$10,895	$10,968	$11,006	$10,929	$11,270	$11,422
Brooklyn	$11,755	$11,851	$12,021	$12,018	$12,379	$12,585
New York	$24,291	$25,230	$25,823	$26,608	$27,877	$28,241
Queens	$14,707	$14,768	$15,032	$15,112	$15,618	$15,917
Richmond	$15,435	$15,865	$16,554	$16,830	$17,347	$17,450
Citywide	$15,136	$15,410	$15,697	$15,880	$16,482	$16,735

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and U.S. Bureau of Labor Statistics. CPI is yearly average index for New York-Northern New Jersey.

Note: The Department of Commerce revises the statistics periodically. The per capita income reported here may not be the same as reported in last year's research summary.

Annual Average Unemployment Rates For NYC and Boroughs, 1986-90

	1986	1987	1988	1989	1990
Bronx	8.3%	6.8%	5.5%	7.0%	8.2%
Brooklyn	8.6%	6.7%	5.5%	6.7%	7.9%
New York	7.0%	5.3%	4.3%	5.0%	5.8%
Queens	6.3%	4.9%	4.0%	5.0%	6.0%
Richmond	5.3%	4.4%	4.0%	4.8%	6.4%
NYC	7.4%	5.7%	4.7%	5.8%	6.8%

Source: NYS Department of Labor.

Note: The following unemployment rates for 1990 were released by the U.S. Bureau of Labor Statistics. For January, February and March the unemployment rates for NYC were 7.4%, 7.3%, and 8.1% respectively.

Annual Average Earnings for Workers Employed in NYC

	1984	1985	1986	1987	1988	1989
Current Dollars						
Bronx	$16,936	$17,947	$19,072	$19,913	$21,162	$23,089
Brooklyn	$15,827	$16,670	$17,625	$18,697	$19,736	$21,633
New York	$26,656	$28,577	$31,021	$33,646	$37,239	$36,674
Queens	$19,409	$20,423	$21,178	$22,290	$23,378	$24,761
Staten Island	$16,255	$17,244	$18,046	$18,463	$19,465	$21,348
NYC	$23,496	$24,889	$26,727	$28,735	$31,170	$32,304
CPI*	**104.8**	**108.7**	**112.3**	**118**	**123.7**	**130.6**
Constant 1984 Dollars						
Bronx	$16,936	$17,303	$17,798	$17,685	$17,929	$18,528
Brooklyn	$15,827	$16,072	$16,448	$16,605	$16,721	$17,359
New York	$26,656	$27,552	$28,949	$29,882	$31,549	$29,429
Queens	$19,409	$19,690	$19,764	$19,797	$19,806	$19,869
Staten Island	$16,255	$16,625	$16,841	$16,398	$16,491	$17,131
NYC	**$23,496**	**$23,996**	**$24,942**	**$25,521**	**$26,408**	**$25,922**

Source: NYS Department of Labor and U.S. Bureau of Labor Statistics. CPI is yearly average index for New York-Northern New Jersey.

Payroll Employment by Industry for NYC as of December
(Thousands)

	1987	1989	1990	1987-1989	1989-1990
Construction	123.2	120.1	106.8	-3.1	-13.3
Manufacturing	379.4	355.4	326.4	-24.0	-29.0
Durable Goods	100.8	94.2	86.1	-6.6	-8.1
Nondurable Goods	278.6	261.2	240.3	-17.4	-20.9
Transportation	219.4	224.5	227.6	5.1	3.1
Trade	657.8	653.3	605.5	-4.5	-47.8
Wholesale	233.2	228.7	214.5	-4.5	-14.2
Retail	424.6	424.6	391.0	0.0	-33.6
Finance	556.2	529.8	504.1	-26.4	-25.7
Services	1136.6	1175.5	1185.4	38.9	9.9
Mining	0.6	0.4	0.2	-0.2	-0.2
Total Private	**3073.2**	**3058.9**	**2956.0**	**-14.3**	**-102.9**
Government	588.8	605.6	606.7	16.8	1.1
Total Employment	**3662.0**	**3664.5**	**3562.7**	**2.5**	**-101.8**

Source: U.S. Bureau of Labor Statistics. Note: Totals may not add due to rounding.

Employment Cost Index for Wages & Salaries, Private Industry Workers, Northeast Region

	1986	1987	1988	1989	1990
March	85.0	89.1	92.7	98.8	104.0
June	86.4	89.9	94.0	100.0	104.8
September	87.0	91.0	95.1	101.8	105.9
December	87.6	91.9	96.9	102.9	106.9
Quarterly Average	86.5	90.5	94.7	100.9	105.4

12-month percentage change in the ECI

	1986	1987	1988	1989	1990
March	5.0%	4.8%	4.1%	6.5%	5.3%
June	5.4%	4.0%	4.6%	6.4%	4.8%
September	4.3%	4.5%	4.6%	7.0%	4.1%
December	3.9%	5.0%	5.4%	6.2%	3.9%
Quarterly Average	4.7%	4.6%	4.7%	6.5%	4.5%

Source: U.S. Bureau of Labor Statistics

Note: June 1989 Index.

Consumer Price Index for All Urban Consumers, New York-Northern New Jersey

	1986	1987	1988	1989	1990
March	111.5	115.8	121.5	128.9	136.6
June	111.7	117.8	123.1	130.5	137.1
September	113.0	119.8	126.0	132.2	140.8
December	113.8	120.6	126.0	133.3	141.6
Quarterly Average	112.5	118.5	124.2	131.2	139.0
Yearly Average	112.3	118.0	123.7	130.6	138.5

12-month percentage change in the CPI

	1986	1987	1988	1989	1990
March	3.7%	3.9%	4.9%	6.1%	6.0%
June	3.1%	5.5%	4.5%	6.0%	5.1%
September	3.1%	6.0%	5.2%	4.9%	6.5%
December	2.5%	6.0%	4.5%	5.8%	6.2%
Quarterly Average	3.1%	5.3%	4.8%	5.7%	5.9%
Yearly Average	3.3%	5.1%	4.8%	5.6%	6.0%

Source: U.S. Bureau of Labor Statistics

Note: 1982-1984 Index.

Appendix K - Housing Supply

Permits Issued for New Housing in NYC, 1987-90

	1987	1988	1989	1990
Bronx	931	967	1,643	1,182
Brooklyn	1,650	1,629	1,775	1,634
Manhattan	3,811	2,460	2,986	2,398
Queens	3,182	2,506	2,339	704
Staten Island	4,190	2,335	2,803	940
Total	**13,764**	**9,897**	**11,546**	**6,858**

Source: NYS Division of Housing and Community Renewal.

Units in Buildings Receiving Preliminary Certificates for 421-a Tax Abatement

	1989	1990
Bronx	756	48
Brooklyn	1,327	36
Manhattan	1,224	652
Queens	1,813	228
Staten Island	222	16
All	**5,342**	**980**

Source: NYC Department of Housing Preservation and Development, Division of Financial Services.

J-51 Tax Abatement, Final Certificates Issued, 1988-90

	Buildings			Units			Abatement		
	1988	1989	1990	1988	1989	1990	1988	1989	1990
Bronx	411	499	524	18,853	13,928	24202	$22,450,500	$30,559,000	$34,273,915
Brooklyn	710	761	698	30,099	19,992	30058	$45,647,700	$43,269,600	$44,078,440
Manhattan	492	433	610	23,045	10,275	28893	$37,142,400	$25,770,400	$37,389,330
Queens	986	1,197	466	36,548	18,978	29748	$40,657,800	$26,813,500	$25,997,627
Staten Island	56	81	1	822	1,219	108	$893,400	$1,196,400	$29,700
Total	**2,655**	**2,971**	**2,299**	**109,367**	**64,392**	**113,009**	**$146,791,800**	**$127,608,900**	**$141,769,012**

Source: NYC Department of Housing Preservation and Development, Division of Financial Services.

N.Y.C. Residential Co-op and Condominium Activity

Number of Plans Accepted for Filing By The Attorney General's Office, 1985-90
Units in Parentheses

	1985	1986	1987	1988	1989	1990	Total 1985-1990
New Construction	288 (9,391)	284 (11,684)	260 (8,460)	296 (9,899)	211 (6,153)	107 (4,203)	1,446 (49,790)
Non-Eviction Plan	331 (30,277)	428 (39,874)	505 (35,574)	484 (32,283)	362 (25,459)	134 (14,640)	2,244 (178,107)
Eviction Plan	52 (2,276)	15 (687)	11 (1,064)	16 (1,006)	6 (137)	7 (364)	107 (5,534)
H.P.D. Sponsored Plan	35 (935)	6 (195)	51 (1,175)	51 (1,159)	52 (945)	50 (1,175)	245 (5,584)
Total	**706 (42,879)**	**733 (52,440)**	**827 (46,273)**	**847 (44,347)**	**631 (32,694)**	**298 (20,382)**	**4,042 (239,015)**

Source: New York State Attorney General's Office.

Note: New Construction figures include conversions of commercial structures to residential co-ops & the rehabilitation of vacant residential structures.The figures given above for eviction & non-eviction plans include those which are abandoned because an insufficient percentage of units were sold within the 15 month deadline; in addition some of the eviction plans accepted for filing may have subsequently been amended or resubmitted as non-eviction plans and therefore may be reflected in both categories.

Appendix L - 1991 Price Index of Operating Costs for Rent Stabilized Hotels

Expenditure Weights, Price Relatives, Percent Changes and Standard Errors, All Hotels, 1991

Spec#	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error
101	TAXES, FEES, & PERMITS	0.1871	1.1917	0.1917	0.5000
205	Social Security Insurance	0.0595	1.0464	0.0464	0.0000
206	Unemployment Insurance	0.0131	1.0187	0.0187	0.0000
208	Hotel Private Health/Welfare	0.0320	1.0522	0.0522	0.0000
209	Hotel Union Labor	0.3324	1.0505	0.0505	0.0000
210	SRO Union Labor	0.0134	1.0428	0.0428	0.0000
211	Apartment Value	0.1235	1.0151	0.0151	1.6527
212	Non-Union Superintendent	0.1023	1.0434	0.0434	1.4778
213	Non-Union Maid	0.0400	1.0000	0.0000	0.0000
214	Non-Union Desk Clerk	0.1822	1.0000	0.0000	0.0000
215	Non-Union Maintenance Worker	0.0608	1.0000	0.0000	0.0000
216	Non-Union Janitor/Porter	0.0408	1.0562	0.0562	2.2771
	LABOR COSTS	0.1756	1.0306	0.0306	0.2705
301	Fuel Oil #2	0.6856	1.0453	0.0453	0.6216
302	Fuel Oil #4	0.0153	1.0765	0.0765	1.6051
303	Fuel Oil #6	0.2991	1.0332	0.0332	1.0009
	FUEL	0.1210	1.0421	0.0421	0.5214
401	Electricity #1, 2,500 KWH	0.0950	0.9874	-0.0126	0.0000
402	Electricity #2, 15,000 KWH	0.0918	0.9828	-0.0172	0.0000
403	Electricity #3, 82,000 KWH	0.2760	0.9820	-0.0180	0.0000
404	Gas #1, 12,000 therms	0.0511	0.9563	-0.0437	0.0000
405	Gas #2, 65,000 therms	0.0356	0.8971	-0.1029	0.0000
406	Gas #3, 214,000 therms	0.1454	0.8910	-0.1090	0.0000
407	Steam #1, 1.2m lbs	0.0002	1.0131	0.0131	0.0000
409	Telephone	0.1906	1.1219	0.1219	0.0000
410	Water & Sewer	0.1143	1.0227	0.0227	2.3028
	UTILITIES	0.1870	0.9964	-0.0036	0.2632
501	Repainting	0.2103	1.0684	0.0684	1.0621
502	Plumbing, Faucet	0.0775	1.0454	0.0454	1.0723
503	Plumbing, Stoppage	0.0793	1.0376	0.0376	0.9520
504	Elevator #1, 6 fl., 1 e.	0.0280	1.0819	0.0819	2.6030
505	Elevator #2, 13 fl., 2 e.	0.0269	1.0788	0.0788	2.7266
506	Elevator #3, 19 fl., 3 e.	0.0277	1.0795	0.0795	3.0027
507	Burner Repair	0.0247	1.0482	0.0482	0.9473
508	Boiler Repair, Tube	0.0253	1.0437	0.0437	1.0003
509	Boiler Repair, Weld	0.0256	1.0208	0.0208	1.5584
511	Range Repair	0.1517	1.0587	0.0587	1.9304

Spec#	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error
512	Roof Repair	0.0233	1.0171	0.0171	4.0449
513	Air Conditioner Repair	0.0468	1.0316	0.0316	1.0619
514	Floor Maint. #1, Studio	0.0009	1.0059	0.0059	2.2591
515	Floor Maint. #2, 1 Br.	0.0020	1.0061	0.0061	2.3334
516	Floor Maint. #3, 2 Br.	0.0180	0.9918	-0.0082	2.4672
518	Linen/Laundry Service	0.2321	1.0270	0.0270	1.0868
	CONTRACTOR SERVICES	0.1026	1.0472	0.0472	0.4945
601	Management Fees	0.6102	1.0200	0.0200	2.4300
602	Accountant Fees	0.0816	1.0610	0.0610	1.7306
603	Attorney Fees	0.1523	1.0487	0.0487	1.5469
604	Newspaper Ads	0.0941	0.9535	-0.0465	9.9206
605	Agency Fees	0.0206	1.0624	0.0624	0.1807
606	Lease Forms	0.0131	1.0174	0.0174	2.1209
607	Bill Envelopes	0.0146	1.0204	0.0204	3.0552
608	Ledger Paper	0.0135	1.0178	0.0178	4.1674
	ADMINISTRATIVE COSTS	0.0907	1.0223	0.0223	1.7753
701	INSURANCE COSTS	0.0378	1.0440	0.0440	0.5443
801	Light Bulbs	0.0172	1.0150	0.0150	1.9454
802	Light Switch	0.0177	1.0071	0.0071	2.9738
803	Wet Mop	0.0442	1.0390	0.0390	1.9890
804	Floor Wax	0.0482	1.0268	0.0268	1.3637
805	Paint	0.1127	1.0532	0.0532	1.6615
806	Pushbroom	0.0460	1.0231	0.0231	1.4016
807	Detergent	0.0447	1.0552	0.0552	1.4980
808	Bucket	0.0454	1.1077	0.1077	5.5215
809	Washers	0.0501	1.0156	0.0156	2.4983
810	Linens	0.3420	1.0179	0.0179	1.5929
811	Pine Disinfectant	0.0189	1.0126	0.0126	1.0552
812	Window/Glass Cleaner	0.0185	1.0688	0.0688	2.9648
813	Switch Plate	0.0453	1.0337	0.0337	1.8552
814	Duplex Receptacle	0.0449	1.0172	0.0172	2.0831
815	Toilet Seat	0.0507	1.0403	0.0403	1.7275
816	Deck Faucet	0.0533	1.0140	0.0140	1.8034
	PARTS AND SUPPLIES	0.0705	1.0313	0.0313	0.6865
901	Refrigerator #1	0.0199	1.0138	0.0138	1.2983
902	Refrigerator #2	0.0995	1.0061	0.0061	1.1706
903	Air Conditioner #1	0.0614	1.0080	0.0080	0.5010
904	Air Conditioner #2	0.0722	1.0096	0.0096	0.5513
907	Range #1	0.0087	1.0271	0.0271	1.1148
908	Range #2	0.0429	1.0103	0.0103	0.6760
909	Carpet	0.3218	1.0493	0.0493	2.0204
910	Dresser	0.1888	1.0315	0.0315	1.4958
911	Mattress & Box Spring	0.1849	1.0321	0.0321	1.2813
	REPLACEMENT COSTS	0.0279	1.0305	0.0305	0.7592
	ALL ITEMS	**1.0000**	**1.0572**	**0.0572**	**0.2216**

Expenditure Weights and Price Relatives by Hotel Type, 1991

		Hotels		Rooming Houses		SROs	
Spec#	Item Description	Weight	Relative	Weight	Relative	Weight	Relative
101	TAXES, FEES, & PERMITS	0.2631	1.2267	0.1668	1.1761	0.1024	1.1562
205	Social Security Insurance	0.0761	1.0464	0.0556	1.0464	0.0347	1.0464
206	Unemployment Insurance	0.0121	1.0190	0.0098	1.0186	0.0185	1.0187
208	Hotel Private Health/Welfare	0.0477	1.0525	0.0000	0.0000	0.0045	1.0522
209	Hotel Union Labor	0.5097	1.0505	0.0000	0.0000	0.0000	0.0000
210	SRO Union Labor	0.0000	0.0000	0.0000	0.0000	0.0651	1.0428
211	Apartment Value	0.0348	1.0151	0.4287	1.0151	0.1815	1.0151
212	Non-Union Superintendent	0.0111	1.0445	0.3799	1.0434	0.1892	1.0434
213	Non-Union Maid	0.0552	1.0000	0.0272	1.0000	0.0000	0.0000
214	Non-Union Desk Clerk	0.1738	1.0000	0.0000	0.0000	0.3354	1.0000
215	Non-Union Maintenance Worker	0.0568	1.0000	0.0000	0.0000	0.1157	1.0000
216	Non-Union Janitor/Porter	0.0227	1.0562	0.0988	1.0563	0.0555	1.0562
	LABOR COSTS	0.1736	1.0342	0.0841	1.0313	0.2185	1.0191
301	Fuel Oil #2	0.7324	1.0453	1.0000	1.0453	0.2942	1.0453
302	Fuel Oil #4	0.0000	0.0000	0.0000	0.0000	0.0773	1.0765
303	Fuel Oil #6	0.2676	1.0332	0.0000	0.0000	0.6285	1.0332
	FUEL	0.1043	1.0420	0.1516	1.0453	0.1314	1.0401
401	Electricity #1, 2,500 KWH	0.0042	0.9874	0.5007	0.9874	0.0821	0.9874
402	Electricity #2, 15,000 KWH	0.0924	0.9828	0.0000	0.0000	0.1590	0.9828
403	Electricity #3, 82,000 KWH	0.3558	0.9820	0.0000	0.0000	0.2218	0.9820
404	Gas #1, 12,000 therms	0.0038	0.9563	0.3043	0.9564	0.0123	0.9562
405	Gas #2, 65,000 therms	0.0291	0.8971	0.0000	0.0000	0.0841	0.8971
406	Gas #3, 214,000 therms	0.1516	0.8910	0.0000	0.0000	0.2344	0.8910
407	Steam #1, 1.2m lbs	0.0000	0.0000	0.0015	1.0131	0.0000	0.0000
409	Telephone	0.2601	1.1219	0.0282	1.1219	0.0844	1.1219
410	Water & Sewer	0.1030	1.0227	0.1653	1.0227	0.1220	1.0227
	UTILITIES	0.1649	1.0063	0.2346	0.9876	0.1854	0.9706
501	Repainting	0.2167	1.0685	0.2417	1.0684	0.1660	1.0684
502	Plumbing, Faucet	0.0312	1.0454	0.1769	1.0454	0.1505	1.0454
503	Plumbing, Stoppage	0.0319	1.0376	0.1809	1.0376	0.1539	1.0376
504	Elevator #1, 6 fl., 1 e.	0.0392	1.0819	0.0000	0.0000	0.0131	1.0818
505	Elevator #2, 13 fl., 2 e.	0.0376	1.0788	0.0000	0.0000	0.0126	1.0788
506	Elevator #3, 19 fl., 3 e.	0.0387	1.0795	0.0000	0.0000	0.0130	1.0795
507	Burner Repair	0.0083	1.0482	0.0256	1.0482	0.0768	1.0483
508	Boiler Repair, Tube	0.0085	1.0436	0.0262	1.0437	0.0785	1.0437
509	Boiler Repair, Weld	0.0085	1.0209	0.0265	1.0208	0.0794	1.0208
511	Range Repair	0.1789	1.0587	0.0579	1.0587	0.1355	1.0587
512	Roof Repair	0.0358	1.0171	0.0018	1.0168	0.0000	0.0000
513	Air Conditioner Repair	0.0395	1.0316	0.0775	1.0316	0.0468	1.0316
514	Floor Maint. #1, Studio	0.0003	1.0062	0.0019	1.0059	0.0019	1.0056

		Hotels		Rooming Houses		SROs	
Spec#	Item Description	Weight	Relative	Weight	Relative	Weight	Relative
515	Floor Maint. #2, 1 Br.	0.0007	1.0064	0.0042	1.0061	0.0042	1.0062
516	Floor Maint. #3, 2 Br.	0.0066	0.9917	0.0389	0.9918	0.0388	0.9918
518	Linen/Laundry Service	0.3176	1.0270	0.1399	1.0270	0.0288	1.0270
	CONTRACTOR SERVICES	0.0899	1.0485	0.1244	1.0437	0.1106	1.0458
601	Management Fees	0.6584	1.0200	0.4690	1.0200	0.5550	1.0200
602	Accountant Fees	0.0538	1.0610	0.1739	1.0610	0.1050	1.0609
603	Attorney Fees	0.1187	1.0487	0.2136	1.0487	0.2179	1.0487
604	Newspaper Ads	0.1159	0.9535	0.0462	0.9534	0.0580	0.9535
605	Agency Fees	0.0177	1.0624	0.0324	1.0624	0.0213	1.0624
606	Lease Forms	0.0113	1.0174	0.0206	1.0174	0.0136	1.0174
607	Bill Envelopes	0.0125	1.0203	0.0229	1.0204	0.0151	1.0204
608	Ledger Paper	0.0117	1.0178	0.0213	1.0178	0.0140	1.0178
	ADMINISTRATIVE COSTS	0.0817	1.0186	0.0838	1.0315	0.1091	1.0275
701	INSURANCE COSTS	0.0295	1.0440	0.0611	1.0440	0.0420	1.0440
801	Light Bulbs	0.0057	1.0151	0.0420	1.0150	0.0347	1.0150
802	Light Switch	0.0058	1.0071	0.0432	1.0071	0.0357	1.0071
803	Wet Mop	0.0568	1.0390	0.0213	1.0390	0.0218	1.0390
804	Floor Wax	0.0620	1.0268	0.0232	1.0268	0.0238	1.0267
805	Paint	0.0504	1.0532	0.3052	1.0532	0.1625	1.0532
806	Pushbroom	0.0592	1.0231	0.0222	1.0231	0.0227	1.0231
807	Detergent	0.0575	1.0552	0.0215	1.0552	0.0220	1.0552
808	Bucket	0.0585	1.1077	0.0219	1.1077	0.0224	1.1077
809	Washers	0.0139	1.0156	0.0851	1.0156	0.1373	1.0156
810	Linens	0.4729	1.0179	0.1030	1.0179	0.1123	1.0179
811	Pine Disinfectant	0.0062	1.0126	0.0461	1.0126	0.0381	1.0126
812	Window/Glass Cleaner	0.0061	1.0687	0.0452	1.0688	0.0373	1.0687
813	Switch Plate	0.0583	1.0337	0.0218	1.0337	0.0223	1.0337
814	Duplex Receptacle	0.0578	1.0172	0.0216	1.0172	0.0221	1.0172
815	Toilet Seat	0.0140	1.0403	0.0861	1.0403	0.1389	1.0403
816	Deck Faucet	0.0148	1.0140	0.0906	1.0140	0.1462	1.0140
	PARTS AND SUPPLIES	0.0704	1.0304	0.0471	1.0354	0.0735	1.0310
901	Refrigerator #1	0.0086	1.0138	0.0442	1.0138	0.0398	1.0138
902	Refrigerator #2	0.0430	1.0061	0.2203	1.0061	0.1988	1.0061
903	Air Conditioner #1	0.0908	1.0080	0.0113	1.0080	0.0000	0.0000
904	Air Conditioner #2	0.1068	1.0096	0.0132	1.0096	0.0000	0.0000
907	Range #1	0.0014	1.0267	0.0171	1.0271	0.0268	1.0271
908	Range #2	0.0067	1.0103	0.0852	1.0103	0.1332	1.0103
909	Carpet	0.3059	1.0493	0.3597	1.0493	0.3463	1.0493
910	Dresser	0.2207	1.0315	0.1258	1.0315	0.1289	1.0315
911	Mattress & Box Spring	0.2161	1.0321	0.1232	1.0321	0.1262	1.0321
	REPLACEMENT COSTS	0.0225	1.0312	0.0464	1.0292	0.0270	1.0291
ALL ITEMS		**1.0000**	**1.0810**	**1.0000**	**1.0497**	**1.0000**	**1.0330**

Percentage Change in Real Estate Tax Sample by Source of Change and Hotel Type

	Number of Buildings	% Change Due to Assessments	% Change Due to Exemptions	% Change Due to Abatements	% Change Due to Tax Rate	% Change Due to Tax Rate and Assessment	Total Percent Change
Hotels	63	19.68%	-0.89%	0.00%	3.31%	0.82%	22.67%
Rooming House	504	13.77%	-0.02%	-0.02%	3.31%	0.42%	17.61%
SROs	259	14.21%	-2.51%	0.05%	3.31%	0.30%	15.62%
Total	**826**	**16.62%**	**-1.33%**	**0.02%**	**3.31%**	**0.56%**	**19.17%**

Appendix M - Report on Rent Stabilized Hotels: Owner Income & Expense

Average Operating and Maintenance Costs and Average Income Per Unit Per Month, Residential Buildings

	Hotels	SROs	Rooming Houses	All
Taxes	$44.83	$27.23	$32.46	$36.92
Labor	$103.56	$69.48	$19.79	$62.94
Fuel	$9.60	$10.42	$25.15	$16.30
Utilities	$22.78	$23.01	$21.04	$22.08
Maintenance	$45.39	$48.31	$57.59	$50.99
Administration	$42.24	$26.21	$25.89	$32.88
Insurance	$14.08	$13.85	$19.57	$16.37
Miscellaneous	$21.81	$19.39	$5.24	$14.43
Total O&M	$304.35	$237.98	$206.79	$252.98
Gross Income	$407.82	$337.98	$255.49	$332.75

Note: Residential buildings is the sub-sample of buildings without commercial units. Totals may not add due to rounding.

Average Operating and Maintenance Costs and Average Income Per Unit Per Month, O&M to Income Ratio Greater or Equal to 100%

	All Buildings	Residential Buildings
Taxes	$33.40	$33.27
Labor	$121.75	$128.16
Fuel	$16.70	$17.43
Utilities	$27.42	$26.37
Maintenance	$61.87	$65.08
Administration	$43.57	$41.33
Insurance	$23.12	$23.13
Miscellaneous	$34.98	$38.19
Total O&M	$362.81	$372.96
Gross Income	$262.56	$264.98

Source: NYC Department of Finance, Income and Expense filings.

Note: Residential buildings is the sub-sample of buildings without commercial units. Totals may not add due to rounding.

Appendix N - Housing Disinvestment and Rent Regulation: Reality or Rhetoric

A Discussion with Five Distinguished Housing Experts

THE CITY OF NEW YORK

RENT GUIDELINES BOARD

PUBLIC MEETING

Auditorium
One Police Plaza
New York, New York

April 18, 1991
7:00 o'clock p.m.

B e f o r e:

ASTON GLAVES,
Chairman

A P P E A R A N C E S:

Board Members:

Aston L. Glaves, Chairman

Joseph L. Forstadt
Oda Friedheim
Ellen Gesmer
Galen Kirkland
Victor Marrero
Agustin Rivera
Janice Robinson

Staff:

Timothy L. Collins, Executive Director/Counsel

Panel:

Flora Davidson
Peter Marcuse
Elizabeth Roistacher
Peter Salins
Emmanuel Tobier

Transcription by;

Louise Clarke
Cecille Latty

Aston Glaves: Good evening ladies and gentlemen. Before we begin I would like to say a few words about the importance and the timeliness of tonight's special meeting. As many of you know in less than three weeks the Board will be meeting to propose rent adjustments for the coming year. These proposals will concern a large portion of the nearly one million rent stabilized households within the city. Following a thirty day notice and comment period and public hearings on the proposed guidelines, the Board will meet to adopt the final guidelines. This year's guidelines will be established in the midst of some major shifts in the rental housing industry. We have heard the rumblings of these changes for well over a year, and we have been busy collecting data on recent trends. And, so we welcome this opportunity to discuss our most recent information with some of the nation's leading experts in housing policy and rent regulation.

In it's twenty-two year history this Board has witnessed dramatic changes in our city's rental housing stock, from the severe decline of the 1970s to the booming growth and speculation of the eighties. These cycles and the public policy concerns they generate are not new. The City has weathered and overcome housing problems for more than a century. Yet, the expectations of the public with regard to the quality, availability and affordability of housing are much higher today than fifty or a hundred years ago. We could respond to the problems we are facing annually by adopting the arguments of one or the other of those who come before the Board year after year with two opposing messages. Those who represent building owners say "raise the rents." Those representing tenants demand a rent roll-back or a freeze. The owners argue that large rent increases will boost housing quality and supply in addition to raising needed local revenues through property tax levies. Tenant representatives often assert that owners are doing quite well under the present system, and that tenants as a class face severe economic stress and the possibility of homelessness if rents continue to go up.

Past experience generally demonstrates, however, that neither a perpetual rent freeze nor dramatic increases will eliminate the current pressures experienced by both building owners and the tenant households.

Yet, this Board cannot stop here. Moderate and pragmatic policies lose their moderation and effectiveness in the face of radically changing circumstances. As we enter a new period in housing we must be prepared to evaluate the past frankly, and we must view the present openly.

The State Legislature and City Council have given this Board a tremendous responsibility. The annual establishment of rent guidelines directly and dramatically impacts on the lives of over two million city residents and greatly effects the economic viability of the housing they inhabit. Each year we are called upon to immerse ourselves in the complex and difficult business of examining the health of the housing industry and the security of the City's tenant population. We owe it to the public to conduct this examination with integrity, openness and professional competence, and we intend to fulfill this obligation. And, so now we will get on to the first part of the discussion with our invited panelists. Tim, it's in your hands.

Timothy Collins: Thank you Mr. Chairman. Good evening. In a few minutes we will begin our discussion. Please allow me a moment to introduce our distinguished panel. To my immediate left is Flora Davidson. Dean Davidson wrote her doctoral dissertation on *City Policy and Housing Abandonment: A Case Study of New York City, 1965-1973*. Her work focused on housing policy under the Lindsay administration, a critical period during the last wave of housing abandonment. She is presently Associate Dean of the Faculty and Lecturer in Political Science at Barnard College. To her left is Peter Marcuse. Professor Marcuse is the author of *Housing Abandonment: Does Rent Control Make a Difference?* He is also author of *The Uses and Limits of Rent Regulation, and Rental Housing in New York City, 1975-1978*. He is currently a professor of Urban Planning at Columbia University. His extensive work in the area of rent regulation and housing policy is frequently cited in professional literature on the subject. Next to Professor Marcuse is Emmanuel Tobier. Professor Tobier has produced numerous works in housing policy and urban affairs. He is a former Chairman of the Rent Guidelines Board, and indeed was the Chairman of this Board during the most severe period of abandonment in the mid-70s. He is currently the Chairman of the Urban

Editor's Note: This transcript has been edited for readability. Copies of the unedited transcript are available at the RGB office.

Planning Program at the Wagner School of Public Service at N.Y.U. Next to professor Tobier is Peter Salins. Professor Salins is the author of *The Ecology of Housing Destruction*, and co-author of the forthcoming book, *Scarcity by Design*. He is Chairman of the Department of Urban Affairs and Planning at Hunter College and is a well known critic of New York City's rent regulation system. At the far end of the table is Elizabeth Roistacher. Professor Roistacher recently authored a study entitled *Reforming Rent Regulation* for the Citizens Budget Commission. She is a former Deputy Assistant Secretary of State for the Department of Housing and Urban Development and is currently a Professor of Economics at Queens College. Now, let's begin.

As you know each year this Board conducts public hearings prior to setting its annual guidelines. The real estate industry often testifies that a failure to grant substantial rent increases will result in owners walking away from their properties, and that the City will ultimately have the obligation to manage them. When we refer to the wave of abandonment of the 1960s and 1970s is this the kind of abandonment that we are talking about?

Professor Salins: I think the relationship between abandonment and rent regulation is very complex, and I think it's much too simplistic to say that granting more generous rent increases will avoid abandonment or that having lower rent increases will hasten it. I think that rent regulation is guilty of weakening the housing market in a much more complex and a long term way. And, it's these long term weaknesses in the housing market created by rent regulation that may result in abandonment and disinvestment. So, you are not going to get an immediate impact one way or the other, but over the long haul I think that rent regulation has contributed to abandonment. Certainly it is not at all clear whether the housing market today is similar enough to the housing market of fifteen or twenty years ago so that things would play themselves out quite the same way.

Timothy Collins: Professor Salins the last wave of abandonment witnessed a number of buildings which became untenanted. It was marked by empty lots and completely vacant neighborhoods. Is this the type of abandonment that we are thinking about when we hear the owners complain of disinvestment because of the actions of the Rent Guidelines Board or will we witness a shift of a different kind either to the banks or to the not-for-profit sector or to the city, and will that bring with it different public policy implications?

Professor Salins: First of all I think that the more operative word than abandonment is the word that you have in the title of this round table and that's disinvestment. I think that the most immediate impact of a reduction in the potential rent would be disinvestment. Disinvestment may or may not lead to abandonment. Certainly these days there is no question that outright abandonment meaning tax foreclosure or mortgage foreclosure will sooner or later put the stock in the hands of the City.

Timothy Collins: What are the implications of that? If the private sector cannot maintain and support a base of housing for a population which many recognize as not having the means to pay higher rents, is there a down side to public ownership or not- for- profit ownership.

Professor Salins: Well the down side, of course, is that it costs a great deal of money. I think that that's the major down side. The City has sort of taken upon itself the burden of rescuing, and in many cases rehabilitating a good part of the housing stock that it inherits as a result of these tax foreclosures. Is that a bad thing? It's hard to tell, again, in a short run. Certainly, it is a very costly thing, and it is probably a fiscal burden that the City, especially at these times can ill-afford. So, I would say that the major down side is that the City really is not in a very strong fiscal position to rescue the stock that the private sector leaves behind.

Timothy Collins: You mentioned that the process of abandonment and it's link with rent regulation is a very complex one. Quite frequently we hear about the problem of the rent gap, which is the regulated rents being below market rents at a time when operating costs are increasing relative to the rents that the Board is permitting. Is the rent gap a critical issue in the process of abandonment or is there something else involved?

Professor Salins: Well I never liked the term. Essentially the major negative impact of rent regulation is that it mis-allocates the housing stock and it mis-allocates the housing stock because the housing market gets distorted in that the regulated rents increasingly bear little relation to market rents. Perversely though, precisely in those submarkets of the City where abandonment is most likely to take place, the gap actually between market and regulated rents may actually be the smallest. The gap between market and regulated rents is probably greatest in the strongest residential neighborhoods in the city where for any number of reasons outright abandonment may not take place although even there you will see a certain amount of disinvestment or maybe a better term would be under-investment. The connection between rent regulation and abandonment really runs through sort of the long term under maintenance of a good part of the stock. The general lowering of the overall quality of the housing stock and the downward capitalization of the value of so many of the properties in marginal neighborhoods so that their economic fragility is such that it wouldn't take much in the way of adverse short term economic circumstances, higher vacancy rates, higher taxes, higher fuel costs — given that fragility — it doesn't take much for disinvestment to take place or disinvestment to become so extreme that you have abandonment.

Timothy Collins: Professor Tobier .

Professor Tobier: The way you put your question was we're looking at what happened in the last wave of abandonment. I think there is a difference now. The last wave of abandonment took place in the 70s and two things happened in the seventies. One, the population in the City declined by a lot and there was a real surge in inflation. This time, the population in the City is increasing and not because of gentrification but because of in-migration of working class people into the City in large numbers, much larger numbers than the census has really acknowledged. And two, inflation is much lower than it was and it isn't going higher so we've sort of gotten used to a certain rate of inflation. So, I don't know if we are going to get abandonment so much as a result of rent regulation because rent regulation, as long as it's steady in the terms of the increases it gives, may not be much of a factor anymore. But, we may be getting... some people at the low end of the market being priced out of

whatever housing there is available. That's really not a function of what the private market does or doesn't do. It's a function of what the public sector is no longer able to do in terms of providing subsidized housing for people.

Timothy Collins: Thank you. Professor Marcuse.

Professor Marcuse: Just a brief comment on the rent gap, one on the rent gap and the other on abandonment. On the rent gap I always thought that the Rent Guidelines Board spoke of fair rents not market rents. I take it to be the purpose of the Rent Guidelines Board to establish a gap between market rents and fair rents otherwise there would be no need for a Rent Guidelines Board. The standard is one of fairness and not to achieve market rents. For that we don't need rent regulation. The other point on abandonment — I had really thought that the abandonment connection was a pretty well repudiated argument in the profession at least. I had come across a quote that I wanted to read that I thought made the point that is fairly obvious very well. It is a description of abandonment and it describes the situation in Harlem.

> "In addition to the burden of social and physical ills for which the community must foot the bill, there exists an economic problem involving a substantial portion of the City's tax revenue and hundreds of millions of dollars in real estate revenues, one third of the total of 7996 real estate parcels tax delinquent for three years or more, 600 tenement buildings ordered vacated or abandoned by their owner, an aggregate of 34 acres of vacant lots in this particular area, marking the sites of structures which have been demolished"

This is Harlem. It was written in September, 1939.

Timothy Collins: Professor Salins just a follow up on our discussion about the link with rent regulation. In your book, *The Ecology of Housing Destruction*, you described a process of filtration and destabilization resulting from the access provided to middle income housing to lower income families that wouldn't otherwise be provided in the absence of rent regulation and you saw that as a destabilizing influence, if I am not mistaken. Is that still a dynamic which is occurring today, and is that something that you remain concerned about?

Professor Salins: I think that conditions have changed a great deal. I think that professor Tobier was right. Certainly at the time that I wrote the book the public assistance housing allowance was much greater. Right now I think the housing allowance really hasn't kept up with inflation. So, I don't think the rent paying ability is there on the part of many poor households, and there have been significant demographic changes, and the population of the City has increased so that you haven't got the vacuum that you had in a lot of these middle income neighborhoods. I know that the focus of the panel is on the question of abandonment and disinvestment, but I do think that you have to be careful that that doesn't become the only focus of a discussion on rent regulation. I mean rent regulation is not responsible for all the ills of the City. It does not cause cancer. It hasn't depleted the ozone layer. It isn't responsible for the fiscal crisis, at least not in a major way. So, I think that it may only tangentially be responsible for the abandonment of the past, and it may be even less involved in the abandonment that we yet see. What we really have to recognize is that the housing market is a single system. That even though there are very important sub-markets and there are different population groups and there are different geographic areas of the City, it is a single system. And if you look at it that way the system can flourish and function in a normal and healthy way as housing markets under optimal circumstances might, or it can be weakened in a variety of ways. Certainly, there are a lot of things unrelated to the rent regulation system that create problems for the housing market in New York City, but I am convinced that rent regulation in general significantly depresses the economic vitality of the system and it could very well be that a rent gap or the difference between market and regulated rents is greatest in areas that are least likely to be abandoned. But, nevertheless, that gap does as much harm on Central Park West as it does in East Harlem. Peter brought very clearly into focus one of the paradoxes of rent regulation. The purpose of rent regulation is to reduce the rents of apartments under the jurisdiction of the system below market levels and presumably do it in a fair and balanced kind of way so that the various participants in the housing market, none of them are overly harmed, including the owners of property. But the very act of trying to do that, however fairly, however balanced, however owners are made whole and tenants are kept from experiencing hardship, that very act distorts the housing market prices. My basic message is that, prices have a very important and wholesome function in all markets, in food markets, in automobile markets, in clothing markets, in consumer goods markets, in entertainment markets and in the housing markets. When all markets have distorted prices we see what happens in terms of the experiences of other countries that have had whole systems like that. We assume that we can sort of extract from the general market operation a submarket like housing and let it operate on different rules. I think that in the long run that doesn't work.

Timothy Collins: Thank you. Professor Roistacher.

Professor Roistacher: I would agree with a good deal of what Peter Salins said. I would, first of all, like to add my general view on the link between abandonment and rent control. I agree with Peter Marcuse, that if you view the literature and what we know about abandonment and rent control, it's very hard to see rent control as any kind of significant contributor. Incomes, particularly neighborhood incomes, seem to be a much more relevant factor. It's unlikely that regulation is actually binding — that rents may well be below regulatory ceilings in many areas. My own recent results indicate that... my results actually in several different time periods — '68, '78 and again in '90, indicate that low income neighborhoods are virtually getting no protection. They also indicate that higher income tenants get substantial protection, and I think that this links into what Peter Salins said about the adverse affects of rent regulation. We would like to believe it's a mechanism for protecting the poor, and I do think if there were an immediate removal of rent regulation the poor would be very very seriously hurt in New York. So, I think at this particular juncture one can't think about full deregulation of this market in any way. But the real benefits are to middle income people and they are very unevenly and very poorly distributed. The impact of regulation is to protect those that don't need it, to give perhaps some protection or no protection to those who do need it and also to make it extremely difficult for new family formation, for people to move into New

York City and to find housing that's affordable, for the children who grew up in New York to find housing that's affordable. This has both serious social and economic implications for the City. So, I think that there could be some improvements in the system that could seriously improve the operations of the housing market. At the same time I would argue that regulation is not something that would really deal with the abandonment problem.

Timothy Collins: Professor Roistacher just to follow up quickly. The point that you are making is that rent regulation creates a form of subsidy. The basic theory of the current rent stabilization system is premised upon a shortage. This Board is charged with the responsibility of trying to simulate what a truly competitive market, if there is such a thing these days, would provide in terms of housing allocation. In addition, most people who are involved in public policy see the gradual end of class and racial economic stratification in the City as a positive public good, and it may well be that rent regulation has in fact helped some poor stay in what are otherwise middle class neighborhoods. In fact it may have kept certain middle class families in the City who would have otherwise left. Does that figure into the calculation in terms of the negative implications of rent regulation at the higher end?

Professor Roistacher: I think the last point you made that it's helped to keep the middle class in is actually one of the arguments that would suggest that it has helped to prevent abandonment in the housing stock. If the middle class had followed patterns in other cities, and I don't think that we really have any good studies of this, but we have a sense that in the absence of rent regulation there would have been more outward migration of the middle class. That means that housing has stayed in middle class... has been occupied by middle class tenants and you get kind of a mixed result here. I believe that there has been under investment in the middle income part of the rent control stock, which weakens it to some extent and leaves it perhaps, one could argue, with a more questionable economic future. But, if you look at it in another way and you say well in the absence of rent regulation middle class people would have left the City entirely that housing might have deteriorated even more rapidly. I think there are virtues to having an integrated economy, but I am not sure rent control... I mean I think that it is a side effect, but it comes in a very costly way in terms of equity and fairness. And, what it does is it extends benefits to people who are long term tenants. That is a key to the protection, and it really does not allow for new entrants to the City who may be a lot more deserving and who we would like to see come to the City.

Timothy Collins: Okay. Following up on something Professor Salins said earlier and thinking about some of the possible benefits of rent regulation, we are now on the down side of a very exceptional boom in the real estate market within the City and this down side has created a tremendous amount of stress. A number of people have observed that the debt servicing that has accompanied over-financing during the eighties has created a problem for many owners and may result in bank foreclosures. And, if the banks don't want the buildings perhaps the City would take them. Is it possible that the level of continuity and stabilization that's imposed by the rent guidelines system in terms of predictability of building revenues may have had a positive impact in terms of mitigating the worst excesses of this speculative period?

Professor Roistacher: I think that I don't know enough about this particular issue to do much more than surmise. I think that a lot of the speculation is in housing that may well be outside the regulatory system and that might suggest to you, therefore, that regulation or regulated housing is not subject to this problem. I guess one question is whether the kind of speculation that has gone on in buildings outside the regulatory system is a function of regulation itself. In other words, the market conditions in the unregulated sector are very much affected by the presence of regulation. So, I think it's a tough argument and one that I would have to think more about. I do know that I have been overwhelmed in discussions about the willingness of financial institutions in the 1986, '87, '88 period to lend on properties. I don't whether it's speculation but it can be explained much more by the situation in financial markets and the availability of capital chasing perhaps too little property and, therefore, going after what would be rather risky investments. But, I am really not a hundred percent sure what the answer is on that.

Timothy Collins: Thank you.

Peter Salins: Well there may be something to what you say but it's perverse. There is no question that regulation creates scarcity. I think that is the basic argument that the regulated good becomes the scarce good. Now, scarcity will to some extent protect suppliers against weak demand, and in the volatile housing market, of course, one of the nightmare scenarios that suppliers of housing and owners of housing face is occasional periods of weak demand. So, if you say does a regimen of scarcity reduce the likelihood of really severe pockets of weak demand at times of recession? It probably does, but at the same time scarcity is bad for consumers and is bad for the overall quality of the stock. I think this all goes to one of the great misconceptions, that rent regulation is only opposed by the supply sector, and is always opposed by owners and that it's only bad for owners. My argument is that rent regulation is bad for the housing stock, and sometimes what is bad for the housing stock may not necessarily be bad for individual owners of pieces of that stock.

Timothy Collins: Thank you. Dean Davidson did you have a comment?

Professor Davidson: Yes. I must confess to a bit of irony that I am sensing here. It's nice to hear now that there is universal agreement that rent control was not a significant cause of abandonment. When abandonment first emerged as a critical issue in the late sixties — despite the fact that much of the evidence that we now look at and universally accept was available even then — it was universally proclaimed that, in fact, rent control was the major cause of abandonment. However, when abandonment was finally perceived, it was caught up in the political system and, in fact, became the mechanism by which — then the Lindsay administration — could use to educate the public into reforming rent control, (of course, after the 1969 election) in order to revise what was clearly a distorted system of rent control. But, it was done in the name of abandonment and, of course we know that... I think most people would agree that the data bears out, that at that point the easing of the rent control system to allow for MBR and annual increases certainly infused millions of dollars into the housing market and was a relatively cost free and simple governmental response, that in

fact we were fortunate to have at hand, but it did very little for abandonment or to prevent it or to preserve the housing that was being abandoned. In fact, demolition remained the primary response until the Beame administration, when, because of the fiscal crisis, we shortened our tax arrears foreclosure period from three years to one year, with the intention of increasing our revenues in order to impress the Federal government with our goodwill, but not realizing that the unintended consequences would be an avalanche of buildings coming into City ownership. And, it was only then that the City was forced to confront the fact that the shortage that existed was the shortage in low and moderate income housing, which simply couldn't be sustained by a private market because the rent levels, the legal rent levels were simply not the issue. It was the income of the potential tenants. The City, of course, as we know has now become the landlord of last resort. And tying it up to the present, that there is a shortage of housing for low and moderate income people I think even though we haven't had our Housing and Vacancy Survey, is indicated by many other things not the least of which has already been mentioned the vast in-migrations of working class people for whom we simply do not have enough housing. And, with the withdrawal especially in the Reagan/Bush years of any interest on the part of the Federal government in the plight of cities and poor people and the fact that we have all been written off the national agenda, the outlook I think for the future in this area is quite bleak. And, this is something that we have to confront.

Timothy Collins: Just to follow up on that briefly. You mentioned the policies of demolition and slum clearance of decades ago. In fact, the City today is spending more than three times on housing what the next fifty largest cities in the nation combined are spending. Is the type of development that's going on now likely to impact on preventing the psychology of neighborhood decline that we experienced so many years ago?

Professor Davidson: The good news is that New York City is probably doing more to preserve and maintain low and moderate income housing than any other city in the nation. The bad news is that it's probably too little too late and that we can't continue to afford to be able to do that. For a while there were moneys coming in to help finance that from the Federal Government, from the State Government. That is rapidly disappearing. We are now in a fiscal crisis. The other factors apart from housing that led to cycles of neighborhood decline are still very much present and in fact deteriorating by most indicators. So, to the extent that the processes of neighborhood decline will probably be different now than they were then because our initial response is not simply demolition... but I think we will unfortunately witness new patterns of psychological decline if not physical decline.

Timothy Collins: Thank you. Professor Marcuse.

Professor Marcuse: I just want to call attention to what has happened to one of the questions that you posed to the panel in the hope that it would be possible somehow to arrive at a conclusion on a question. I think you have tried to put together a panel that reflects a very diverse range of views and positions on rent control, but is basically knowledgeable on the subject. I think we agree that abandonment is not a relevant issue to the debate. I think there are lots of things that need to be talked about. But, abandonment really isn't one of them, and I think we agree on that. We have no authority to vote on it, but it seems to me that's the consensus

Timothy Collins: Professor Marcuse. This Board has a tremendous responsibility. The last wave of abandonment was devastating. We lost well over a half a million perhaps close to a million housing units between World World II and the early eighties. A lot of people suggested that the severe rent regulations which existed almost exclusively in New York City during that period were somehow related to this abandonment process. Was this a mere coincidence?

Professor Marcuse: It's a very handy argument to make if you have already decided to be on one side of the issue and you're looking for any possible argument. But it is an argument that the evidence now over many decades has shown to be false. I think there are serious arguments. Peter's argument about the impact of regulation on market adjustments and new construction — I think is an argument that needs to be dealt with. There is information on it. I think we probably disagree on it. It's an important argument. The argument about new comers and old timers — I think is an important argument that needs to be dealt with. The abandonment argument, and frankly I feel the same way about the homelessness argument. I think it's obscene to argue that homelessness is a result of rent control. And, it would be good for the rationality of the discussion if we could sort of put these arguments to the side and focus on what really is debatable. I would love to talk about the question about the impact of rent control on scarcity because I would take at least the initial position that rent regulation directly increases the amount of housing that is available to low income people by preventing its price from rising. If you did not have rent regulation rents would go up and the amount of housing available to low income people would go down. So, that the withdrawal of rent regulation would reduce the amount of housing available to low income people, and the higher the increases that are granted the scarcer housing becomes for that group. That's an argument that I assumably would disagree on...

Timothy Collins: I think you may have seen the materials we put together. There is a quote from Milton Friedman that if you want a shortage of housing supply adopt rent controls. There are really three aspects to that. One is does rent control cause abandonment, and I understand your position and your sense of consensus here but of course in a democratic society these issues are going to be with us for many years. The other issue is levels of new construction and finally changes in housing quality. Let's move for a moment to new construction. Although new construction is not covered by rent regulation unless by a voluntary agreement in exchange for a tax abatement, the charge is often made that rent regulation discourages new construction. Yet, in New York new housing construction remained fairly stable in the early 1970s even after the introduction of rent stabilization. Of course there was a period of vacancy decontrol. At the same time between 1972 and 1975 new construction fell nationally by 77%. Perhaps more construction would have occurred locally in the absence of rent regulation. Does rent regulation inhibit new construction? Perhaps we can begin with Professor Salins.

Professor Salins: I think clearly it does,

and I think that's much less ambiguous a situation than the instance of abandonment. But, I think not exactly for the reason that everybody assumes. There may be a certain aversion on the part of potential builders to confront a regulated market, but I don't think that's the only issue and I don't think for example the exclusion of unsubsidized new construction from the regimen of regulation alone is enough to blunt the impact of regulation. I feel that the greatest impact of regulation is not on the supply side or the motivation of suppliers but on the demand side. Essentially, what it does to some extent is to retard the normal mobility that you would see in housing markets. A lot of middle income renters who would be in the market for new construction in effect, are not willing to pay the difference between the regulated rents where they are and the market rents that they would have to pay in the new construction. If that discrepancy were less, in other words if... just to use some arbitrary numbers... if the family that is right now paying $700 a month for a two bedroom apartment in a nice neighborhood in Queens has the option of moving to a new building whose rent might be $1400 even though the apartments might be nicer, it's too large a difference to justify the move. If they were paying at their present location let's say $1100, which might be the market rent for that apartment, the $300 differential might justify the move to the new apartment. So, I think that demand more than anything else is suppressed, which is sort of related to some of the other arguments that have been made here, both by Professor Marcuse and Professor Roistacher. Well I think I will stand with that. It's the demand impact more than the disincentive of facing a regulated market.

Timothy Collins: Professor Roistacher, you've identified in your CBC report the problem of the tenant hold-out. I think it's somewhat parallel to what Professor Salins has just described in that tenants remain in regulated units and that would prevent, in certain cases, the demolition of those units and the construction of new housing. Yet the new housing which goes up would not be the type of housing necessarily that that hold-out tenant would be able to afford.The question is, is whether or not we would want to encourage that kind of demolition?

Professor Roistacher: Well, I think we're talking about two very different things. First of all it's not a major discussion in the report. There is some tendency for rent regulation to retard the change in use of buildings, and one could argue both for and against that, but certainly the issue of tenant hold-outs has something to do with the redevelopment of sites and could be related to new construction. But, I think that's a very different point from Peter's point and I would disagree. Peter is saying basically, that there is a downward shift in the demand for housing, because of the presence of a regulated sector. A recent study done by Henry Pollakowski at Harvard University attempted to test for what he called this 'policing' effect and he tried to see whether in communities in which there was a high proportion of regulated housing, the unregulated housing tended to have relatively lower rents. And in communities where there was very little regulated housing that the unregulated sector would then tend to have higher rent levels. Controlling for the characteristic of the stocks Pollakowski found no 'Policing' effect. That is, rent control did not seem to hold down rent levels on the unregulated sector. I also think that's a reasonable conclusion because there is plenty of demand, and the demand is not shaped by the rents in sectors where housing is not available. Demand is shaped by market rents that are available near New York or in the... well in market housing situations where you can find apartments. I think that rents are probably... the willingness to pay rent is probably higher in the unregulated sector and therefore would be some stimulus to new construction. I do not think there is much evidence that would suggest that rent control by itself is a great retarder of the supply of new construction. For one thing there is a great demand for housing, and some would suggest that would lead to a high willingness to pay rents and therefore create more supply. There is probably something to the argument that supply is affected by the possibility of the extension of rent regulations to the currently unregulated sector, and that wouldn't necessarily be just on the part of landlords but also on the part of financial institutions. So, I think there is something to that argument, but my own belief from examining the new construction data is that it's hard to read it as evidence that rent control itself is much of a retardant. There are a great many more explanations for why new construction rates have changed in New York City. Often times from other public policy initiatives, but not rent control. The change in the zoning law in 1961 led to an over supply of housing and then, because there was an over supply, a substantial cut back in new construction. So, the series of data in New York doesn't really suggest rent control as an important factor, and when I compared new construction rates in New York City to other older cities without rent control — and this was only a one piece of cross sectional information — the rate of new construction as a proportion of the total stock was not very different from other cities without rent control that were older and larger. So, I don't get any strong evidence that rent control is responsible. I would look for other factors in the housing market some of which are related to the regulatory process, delays, I guess permitting, zoning, those kinds of things.

Timothy Collins: Thank you. Professor Tobier?

Professor Tobier: Just in response to what Betsy said. The over supply in the early sixties caused by the zoning change did result in a sharp slow down in the amount of new construction, and then prices went up. Rents went up, partly because inflation was going up at that point toward the end of the sixties. But, in response to that the political system imposed rent stabilization, which put a lid on prices and in a highly inflationary environment you would have to have your head examined to start building new housing... rental housing in a market that was very susceptible to control even on new construction which it had not been before. So, I don't know what cross sectional analysis shows, I think you really have to look at the history of the interplay between rent regulation, inflation, incomes and population change in New York City over that period of time. Housing markets are local and what happened depended on what was happening around you at that time. When you had a period of dramatic inflation at the end of the sixties and into the seventies and at the beginning of the eighties, I can't imagine that developers, much less lenders weren't spooked by the possibility of price regulation. Why wouldn't they be?

Timothy Collins: Professor Marcuse.

Professor Marcuse: The one factor that

many didn't mention is interest rates. I think in any general review of what influences the level of new construction the overwhelming answer is the level of interest rates. I recently had occasion to look at the relationship between the level of single family house construction in the New York area and multiple family house construction. Oddly enough they go together. They go together for the simple reason that interest rates are the single prime determinant. When interest rates are low you will find both single family and multiple family housing being built. When interest rates are very high you will find neither being built. There were studies, the best I am not familiar with the one Betsy was talking about, but there are studies in Los Angeles, which is the only situation I know of where you've got the possibility of looking at houses across the street from each other where one is regulated and the other isn't because the City of Los Angeles is a hodge-podge of parcels within the county so that there are gaps in the City of Los Angeles in which the county has jurisdiction. And, when there is rent regulation in one but not the other you've literally got identical buildings across the street from each other, one under rent regulation and one not. And, the finding of this study is an interesting one, and when you think about it a logical one. The regulation system is again a stabilization system as it is here and the finding is that the initial rent on the regulated side of the street is slightly higher and then maintains itself steadier than on the other side of the street. What it means very logically is that investors have a non-speculative position towards the returns that they want on their investment. And, any investor in real estate in New York who is not a speculator, any investor that is building because they want a steady and predictable and fair return on their investments is doing fine under stabilization. The people that are hurt are the people that are hoping to make a killing in six months because land values are going to zoom up or because rent regulations will suddenly disappear and they can double the value of their property and double the rents. That isn't money that goes into building. That's a profit that comes to the land on which the building is situated, and if you had a strict rent stabilization system in the City of New York that applied to new construction I think that the only effect it would have is to depress the price of land. And, I think that that would be a great result. Stabilization, as this Board and its predecessors have always interpreted it has never gone below the point where it permits a constant return to be paid on the amount of investment just as in a government bond or in any other stable secure investment. And, thus it seems to me that the impact upon new construction is an impact that does not dampen long term interest in maintaining and renting property. It may well dampen some speculative building, and whether it's a good thing or not to have speculative building in excess of demand, figuring that the market will jump, that is that land prices will jump because of scarcity. Whether that's a good thing or not I think one could debate. Those people that now complain about vacancies in commercial properties I would guess at this point would have been happy if there had been commercial rent control so that there would not have been over building in the commercial sector.

Timothy Collins: Dean Davidson. In the early part of this century the City of New York housed millions of new immigrants. With the exception of the 1920s there was very little rent regulation and subsidized housing was almost non-existent. Did the free market do what government has since been unable to replicate?

Professor Davidson: Well, if we want the kind of housing we had in the early nineteenth century, the answer might be yes. But, I think that our expectations or what the quality of housing that human beings have come to expect and certainly people approaching the twenty-first century have come to expect have changed the parameters of the environment with which we are dealing. So, I think that most people would agree that making comparisons with the kind of poor quality, unregulated housing that existed for the immigrant groups of a hundred years ago won't get us very far today.

Timothy Collins: Professor Tobier.

Professor Tobier: I would not accept that characterization completely. There was a real boom in housing production in a largely unregulated market in the 1920s in New York that really built what would now be considered high quality working class housing. I think you are right if you are talking about what happened before that, before the turn of the century, but not at that point. So, I think that the market worked in a non-regulated way at that time. I agree that for other reasons it may not work in the same way. I think the real incomes of working class people were a lot closer to what the cost of standard housing were then then the real incomes of working class people in New York City today. I think there has really been a deterioration in the ability of ordinary people to acquire standard housing.

Timothy Collins: Professor Salins.

Professor Salins: I think that the somewhat tenuous consensus that Peter referred to earlier in the discussion is rapidly breaking down. Even though as in all of these things we don't have clean experimental cases not even in Los Angeles, to determine the impact, for example, of regulation on new construction. I think that clearly any sort of a comprehensive both theoretical and empirical study will find that rent regulation does have an effect on new construction. Just a few of the points that were brought up in the last few minutes. First of all Dean Davidson the fact that the housing that the free market built a hundred years ago is a lot lousier than the free market built today doesn't tell us anything because the refrigerators that the free market built fifty years ago are probably a lot lousier than the refrigerators that are built today. We are a wealthier country, and the market builds or produces nicer products today. So, I think that is entirely beside the point. The Pollakowski study which said that the regulated units don't depress the rents of the new units isn't really on target either because the contention I make is to the volume not the price. The price is to a larger extent not the result of speculative fever as Peter suggested. There are some completely unavoidable costs in new construction. The cost of the actual construction itself is relatively fixed. And, even though site costs can vary some, even a significant downward capitalization of site costs would not be sufficient to bring the cost of new dwellings within the zone of the regulated units. That is exactly what the advocates of public intervention always say. They say even if the City will give developers the land for free they can't bring unsubsidized housing within the range of the lower middle class. So, the notion that by dampening speculation we are going to accomplish that seems to clearly be inconsistent with that argument. But,

the guts of the housing market is really in the middle, and we get so preoccupied with the housing market for the poor. But, if New York City is going to have a more vital housing market it is going to be driven by the housing demand and the housing supply pitched at the middle of the market. And, I think that it's in the middle of the market that the private sector could build, without subsidy, if it were not deterred by both supply and demand impacts of regulation.

Timothy Collins: Let's for a moment follow up on that. Housing in New York City in particular, and in United States in general has never been purely allocated on the basis of market forces. Well, perhaps we might go back to the early nineteenth century during the time where you built your own log cabin, but I am not sure that had a whole lot to do with the market. But, when we talk about supply and demand we are assuming an economic infrastructure. There are tax abatements that are currently in existence. There are tax breaks to middle income homeowners. There is a myriad of special incentives and subsidies that exist because of local or national policies. In the absence of this support system and in New York City in the absence of rent regulation we would see housing allocated on the basis of a market. And that would mean that the best housing would, of course, go to those who could most afford to pay, and the best locations to those who could most afford to pay. And you would have clearly, isolated pockets of opulence and pockets of severe squalor and you would also perhaps aggravate the already existent class and racial stratification that painfully divides the City. Are the dislocations that we talk about when we talk about rent regulation, perhaps uneconomic in some respects, is there nonetheless a social silver lining in that process? Professor Marcuse.

Professor Marcuse: Well the answer is yes. I wouldn't call it a silver lining. That's the purpose of rent regulation it seems to me to avoid some of the damage that an unregulated market in a condition of severe shortage produces. That's the essence of the argument for rent regulation. I would add sort of a philosophic observation if I may. We sometimes when we talk about rent regulation and particularly, and maybe we want to get into the question of the upper end of the rental market because I think there is also some consensus on the panel that for the poorest people in New York rent regulation is neither good nor bad. It will not permit someone that cannot pay the operating costs of a unit to pay the operating costs, and that's the way it is. We need subsidies in order to have decent housing for poor people in this City. But, for others and when we talk about market levels again there is this question of whether market is the same as fair. It seems to me it isn't. There is nothing in the constitution or in the bible or anywhere else that I know of that says that the owner of a piece of land is entitled to get everything that he or she can get out of that property. And, government was established here to afford some kind of fairness in the allocation of natural resources such as land among people, and if there is a difference between what the market can provide and what a fair return on what reasonable investment would produce that difference comes about because the city has grown and, therefore, the value of land in this city has grown. The Supreme Court said it best in the historic preservation case where the railroad challenged historic preservation treatment for Grand Central and argued that they could have made a huge amount of money building on the site of Grand Central if there were not historic preservation regulations. And, the court said well if you could have made a huge amount of money that's because the City has grown up around you, and the city has created those values. You are not entitled to them by any natural law. And, it seems to me the same to argue that there is some natural entitlement to market values in a market of scarcity. Entitlement to publicly created values is not justified either morally or legally and any other way except perhaps by Milton Friedman.

Timothy Collins: Professor Tobier.

Professor Tobier: I think what Betsy has recently done... I'll confess my interest. I live in a rent controlled apartment and I would be adversely affected by Betsy's recommendations. But, a point I wanted to make is that rent control has really been around for fifty years. I would find it odd that investors in a market which has had rent control as a feature for that long hadn't somehow gotten the idea that it was in existence and that it affected their returns and that they had to a large extent capitalized it into their values and so they may not be getting ripped off. I understand the burden of your proposal is really to raise taxes in part to deal with the city's fiscal crisis. But, there may be a tremendous windfall in a radical reform of rent control right now really because I think a lot of those expectations have been capitalized into it.

Timothy Collins: Professor Salins.

Professor Salins: I think that our consensus now is completely broken down. First of all this market of scarcity that Peter eludes to which justifies rent regulation is the product of rent regulation. I'll leave it at that without going into too long winded about it. If we come away with anything from this at least in terms of some peoples points of view, the notion that the allocation of housing has been made fairer by the system... Essentially, the people that are occupying the best housing right now in New York are the same people that would be occupying that housing under a market priced system. The only thing is that they're simply paying much less for that housing including Professor Tobier, than they otherwise would. So, it's not that Professor Tobier's housing has gone to somebody who could sort of sustain a reasonable rent income ratio, but has an income of let's say half of Professor Tobier's. Professor Tobier is living in that apartment. I don't want to ask him what his rent income ratio is, but I suspect that it's on the lowish side. So, his apartment didn't go to someone less fortunate. The real competition in New York is really a competition for sites, not for apartments. Good apartments, bad apartments, middle apartments, the competition is for sites, locations. The upper west side in Professor Tobier's case or the upper east side, Riverdale or Forest Hills or wherever... The income classes that one would expect to find in those locations under a market system are exactly the income classes that are living in those areas now. Another point, as far as the businessman being able to afford to take a little bit of a hit for the public good, which I think was sort of the general gist of Peter's idea... or the notion that they are not necessarily entitled to the kind of market income that they would I would like us to sort of follow through on the implications of that. You cannot force any producer of any good in effect to subsidize the consumer. Businessmen will protect themselves and businessmen know darn well what buildings are worth in a regulated market, and they pay exactly what buildings are worth in a regulated

market. The harm of the regulation is not on the individual businessman unless he finds himself in a position that the rules changed in the middle of his ownership which happens occasionally. But, by and large each generation of owners encounters a new newly capitalized market. The real problem is in the allocation of housing overall and in the quality of housing overall.

Timothy Collins: Let's follow up briefly... on the notion of a subsidy... The idea, of course, in rent stabilization is that a housing shortage exists. And, under these circumstances in the absence of some kind of regulation owners would be able to take advantage of excessive demand, which would result in destabilization of communities and hardship for tenant households. In any other commodity it is precisely this kind of demand driven increase in price which would attract new investors and replenish supply. We sort of concluded, at least many of you concluded that the issue of new construction is not directly correlated with rent regulation. How then in the situation where we're trying to simulate a competitive market given the shortage, how then does that result in a subsidy to tenants. And, finally I guess this would be for Professor Roistacher. How many of these tenants... or these affluent tenants are there in the population of some 900,000 rent stabilized units?

Professor Roistacher: Can you repeat the first... just the first part?

Timothy Collins: Maybe I should step back because the first part was really for Professor Salins. What we are really talking about here is an attempt to simulate what a competitive market would bring because we know we have a shortage. We know the consequence of the shortage in an open market system would create a tremendous hardship for tenants who would not be able to pay the rents that owners would then be asking. Of course, in any other system, let's take the case of bread; if there is a shortage the price will go up. More people will bake break and eventually the price will stabilize. Here we have a shortage of housing. If the price goes up, the consequences would be devastating in many neighborhoods. So, why can't we simulate a market for this period during the shortage, which we may be emerging from, in a way that creates fairness and doesn't really allow a subsidy for tenants?

Professor Salins: First of all I am one of the dissenters as far as the relationship between regulation and new housing construction. I believe that even the advertisement that rent regulation would end some day would have a salutary impact on new housing construction, but it would result in new construction not for the poor who could not afford the new dwellings. It would be new housing construction for the middle and the upper middle class. As far as the short term impact of deregulation, Professor Roistacher in her report feels that there would be some negative impact even at the bottom of the market although several people here have said that at the bottom of the market the difference between regulated and market rents aren't so great. And, I believe that's the case. But, Professor Roistacher's solution, and maybe it's wrong for me to give it maybe she should give her own solution...

Timothy Collins: Why don't we move to that and...

Professor Salins: Well let me just say that her notion that vacancy decontrol be sort of the major mechanism I think is one that would moot most of the hardship. You should say that that's your line.

Professor Roistacher: One of my key interests in the proposal is that we think about not just vacancy decontrol but higher income decontrol, not on the narrow focus on tax revenues but on the potential it has for improving the allocation mechanism in the housing market. And, I think that the important part, from my own point of view, of the recommendations that are made in the CBC report is that they deregulate a substantial portion of the housing market. The subsidies that are measured in there initially are based against what would happened if you freed up one unit in the market. One has to read the report carefully to understand what's going on there. So, they are measured against a current market situation. What it shows is that high income people have bigger subsidies measured in that way. Many low income people have positive but substantially smaller subsidies in low income neighborhoods, which is different from talking about all low income people. For some the subsidies may not be there at all. So, that's point one and that's measured against the current market.

Timothy Collins: The question that I was initially asking is- one person's subsidy could from another perspective be the prevention of a windfall to owners...

Professor Roistacher: I am coming to that. That's what the subsidy results show. They show low income people measured in terms of the current market. Many low income people are being protected, but low income neighborhoods tend to be areas where the protection is minimal or zero. But, if you deregulated a substantial portion of the market. I think I'd have to open the report and double check. But, roughly half the subsidies are going to households with incomes I think above $20,000 measured in this particular way. But, if you deregulate a substantial number of units, and I think the report looks at figures in the range of 180,000 to 200 and something thousand... If 200,000 units were in the market again you would substantial change what market rents are. You would substantially take pressure off the existing free market set of rents and what you would see is you would have a fair allocation within the existing housing stock even in the absence of a major impact on new construction. So, one of the reasons that I would like to see a major impact is then you truly change the current market environment. I think Peter Salins has actually done some interesting work which allows you to examine the vacancy rate in a slightly different way from the standard way that the Housing and Vacancy Survey reports and suggests that perhaps housing is not as scarce as we think. I would like to add to that point that housing would not be as scarce as we think it is if there was a substantial portion of the housing stock that was available for people to compete for. And, the opportunity right now is that there is a weakening, which is mostly at the top of the market, and not really of to apartments that are in the $300 to $600 range. But, the time is relatively good because pressures on rents are at a minimum. But, I think that the important thing is that you can change the market environment and the uncontrolled market will not look the way it does today.

Timothy Collins: Professor Marcuse.

Professor Marcuse: I will make it brief. Two things and one is it seems to be the comment that rent regulation causes scarcity is really not one that we would want to defend strongly. Clearly the cause of the scarcity in the housing

market in New York is a depression and the war. I don't see how that's debatable.

Professor Salins: You mean the thirties depression and the great war?

Professor Marcuse: Yes. And then we got rent regulation.

Professor Salins: But that was a long time ago right?

Professor Marcuse: We have had a shortage since then.

Professor Salins: Well that may have created a short term stress in the market, but rent regulation in response to that stress is what's created the scarcity every since. But, let's go on.

Professor Marcuse: The other point was a definitional point. This idea of calling the difference between the market rent and the regulated rent a subsidy. It seems to me to be an odd use of words. It assumes an ownership by a landlord of a claim to a rent that the courts don't give him, that as I said that the bible doesn't give him. Where does it come from? Why couldn't one just as well say that in a private unregulated market any amount a tenant pays over the operating costs of the building and the repayment of the capital costs is the subsidy that the tenant pays to the landlord. It just seems to me an awkward choice of terms, and it seems to me the question of what to do with a difference between a competitive or a market rent and a fair rent is an open question for public policy to deal with. And, we might have differences of opinions on it, but I don't think that we should start with the idea that it belongs to the landlord and if the landlord doesn't get it it's a subsidy to the tenant.

Timothy Collins: This last question is for Professor Tobier. Over the past two decades the rents of rent stabilized apartments within the City have increased at a faster rate than rents nationwide. The proportion of income each tenant household must spend on rent has increased from about one fifth to more than one quarter of income. At the same time the inflation adjusted value of net operating returns for building owners has fallen. Some estimates indicate that the value of net operating returns for the post war housing stock has declined by over thirty percent in the last twenty years. The operating returns on the pre-war stock have been more stable and may have improved slightly, although much of that stock was lost during the last wave of abandonment. It may very well be that in many neighborhoods tenants cannot afford to pay more rent, and without increases private owners cannot make a fair return. What happens when a neighborhood income base will not support the housing located there? How should policy makers respond?

Professor Tobier: I think what you are talking about are low income working class neighborhoods. Three things, one is to be ready to chop assessments in those areas. Reduce the burden of property tax on them. Another possibility, I think would be a useful one, would be to increase shelter allowances to allow people on public assistance to compete for what's available. The third would be to warm up the independent sector to arm it... equip it to deal with basket cases that will surely develop in those areas as far as housing that will be under maintained, abandoned, etc. I think the pressure of population growth now is really strong. I don't think we really recognized how strong it is for working class housing, and for people who are not on public assistance. I think that the problem we have is really the problem of very low income people who are unable to compete for housing. That may be a separate issue, but I certainly would take a quick look at what's happening to assessments and property taxes in those areas and to worry a little more about the vitality of the independent sector, the non-profits and to think about shelter allowances in a more systematic way.

Timothy Collins: You mentioned non-profits. The network of non- profits in the early nineties is much different, perhaps far more expansive than it was in the sixties and seventies. Will that make a difference in dealing with distressed properties in the coming years?

Professor Tobier: I think there aren't too many alternatives. I would put it differently. There aren't any alternatives.

Timothy Collins: Thank you very much. I think that brings this portion to a close. I want to thank you all again.

* *

Aston Glaves: I think the past hour has been very informative, and I could see from the facial expression on some of the members of the Board that they were very anxious to get into the act. This is the time that you will have to ask questions of the panel and also maybe to express some of your own views on some of the issues raised. I'm going to start the section by taking the first question from Ms. Gesmer.

Ellen Gesmer: I'd like to address this first to Professor Roistacher, although I'd be happy to hear the comments of other panelists on it as well. Professor Roistacher, you said that the impact of rent regulation in New York is to protect those who you think don't need protection and that led me to two questions. First, I'm curious, in your view who it is in New York who doesn't need the protection of rent regulation? My second question is that, when I read your report and looked in particular at your table 7, which shows the differences between rent to income ratios in the four largest cities in the country and rent to income ratios in regulated and unregulated apartments in New York; what I was struck by was that in fact it appears that the greatest benefit from rent regulation is to people with income below $25,000 for whom the differential and rent income ratio is really most striking between the other four other unregulated cities and New York, and that in particular in incomes above $45,000.00 that the differential between rent income ratios was pretty minimal between the unregulated cities and New York. That is, once you earn over $40,000 you're not going to spend more than 17% of your income for rent whether you live in New York City in a regulated apartment or elsewhere. So, it appeared from that table that, in fact rent regulation has a substantial impact on affecting rent income ratios of people with lower incomes. I was curious about your reaction to both of those issues.

Professor Roistacher: Well, the report tries to make clear that there are substantial protections for low income tenants when measured against what one apartment would go for in today's unregulated market. They are substantial especially relative to the tenant income. In absolute dollars they are much smaller than the benefits that high income tenants are receiving. So, I don't argue that low income tenants are not getting benefits. I argue that there are many benefits going to higher income tenants. So, I don't really disagree with you, and I think the

report tries to show that while the absolute level of benefits is smaller for many low income families relative to income, the benefits are important. I think the report tries to make those points. As for who exactly should and should not be protected... I mean, are you are asking me for an income?

Ellen Gesmer: Yes, I'm curious.

Professor Roistacher: I think that's a difficult question, that I try to address in a very neutral way. If this kind of proposal were seriously considered it would have to have a lot more discussion. But, what I did is I started with a BLS standard as a neutral standard and I updated it, and I only did that so that I wasn't arbitrarily choosing the standard. I would suggest that when one is thinking about who is well off and who isn't well off, that family size is to be taken into account and the study tries to do that. In current dollar terms the study looks at, say an income level for a single family beginning at, if the 1987 figures were updated to 1990, they would start at thirty-eight thousand dollars for one person household and they would go to seventy something or eighty thousand dollars at least for a family of four or more. So, that's what is implicit in the report. If I were implementing this I would think that one would have to have more discussion. But, I chose what I thought was a neutral standard and would leave to a public policy debate where the actual line was to be drawn. By the way, that neutral standard was what the BLS defined as a higher standard of living for New York City. That was the neutral standard. It was BLS's definition.

Professor Salins: Can I just weigh in a little bit? I think that notwithstanding the table and the point that was made, I think the real issue is what those rent income ratios would be in New York in the absence of rent regulation. And, in that sense, then again it's something that one can only develop through conjecture or some kind of a model, but there I think that the difference, the jump in the rent income ratio that would accrue to the upper income groups would be much much greater than the increase in the rent income ratio that would accrue to the lower income groups. So, in that sense in terms of not comparing New York's rent income ratios to other places, but New York before and after rent regulation, most of that benefit whether expressed in absolute terms or expressed as a rent income ratio, most of that benefit accrues to upper income New Yorkers.

Professor Marcuse: Just quickly. I've not had a chance to study Betsy's table 7 carefully, but I had done surprisingly exactly the same thing in the report I did for the State of New York and had looked at all US central cities, and drew from that the conclusion that if you were to assume that other cities had closer to a competitive market than New York, that what rent regulation was doing... was approximating what other cities were able to do without regulation and in fact the table shows... Betsy might have to correct me because I'm just looking at it really almost for the first time, that the people that benefit most are the poor. That at the lower incomes, the difference between what renters in other high costs cities pay and regulated New York City renters pay are the greatest and that in fact for a hundred thousand and up regulated New York City renters pay a little bit more than renters in other high cost cities. Am I reading it wrong?

Professor Roistacher: We're talking relative to income?

Professor Marcuse: Yes.

Professor Roistacher: Yes, I think that's exactly what Ellen said in terms of the interpretation. The question is what does this mean? I'm not sure. First of all Peter these are, interestingly enough, all these other high cost cities are cities with rent regulation. One of, if you look at the list Los Angeles, Boston, San Francisco and Washington...

Professor Marcuse: Then I took a broader sample than you did.

Professor Roistacher: The reason I did that is that I think it is very difficult to compare... the problem is if you want to look at the large high cost cities, that is going to be the closet approximation one might guess to the demand structure in New York and also to housing market conditions. The problem is that you end up with a bunch of cities that would also have rent regulation but not to the same degree. So, this sample is very very different from the one that you were looking at, but....

Professor Marcuse: I think it is also similar.

Professor Roistacher: But the implication is, as it was from just looking at the New York City data that relative to their incomes, lower income people do get large benefits. In absolute terms they don't. Again, I think that my results look at both stabilized and controlled housing. So, to a certain extent the lower income beneficiaries may well be older rent control tenants and these tenants may well be not so much distributed in low income neighborhoods. The results which indicate that low income neighborhoods are getting low benefits may well be pre-'47 stabilized housing in marginal neighborhoods.

Aston Glaves: Mr. Forstadt.

Joseph Forstadt: I find the discussion this evening quite interesting, but I find it irrelevant. It seems to me that on the one hand eliminating rent regulation is beyond our capacity as the members of the Rent Guidelines Board. And, on the other extreme I think no one truly wishes to completely deprive the owners of any kind of return on investment. In fact, I've heard Professor Marcuse refer to the fair return on investment. So, therefore, we as the Board members are left with the dilemma of how do we provide for that? I am, frankly, concerned and I think that the discussion points to what I see as the greatest problem that this Board faces and that is the continuing under-investment in our current housing stock and what that means in the long term... Perhaps to abandonment ultimately as major systems and buildings fail because they have not been properly maintained as the owner tries to make ends meet in a rising tax and inflationary economy. Could you folks give us a hand on what we should be doing to help preserve the housing stock of the City?

Professor Roistacher: One of the first things that I would do is try to take advantage of the data that you should be able to have available to you. And, one of the major concerns has been rising tax arrearage and there is much discussion about this, but not much good documentation. And, what I certainly think you need to do is to find out what kinds of housing are in trouble. What is the nature of the tenantry? What is the nature of the housing? And, before you figure out what the public policy solution is, you have to find out what exactly is going on. And, in terms of the current situation, I don't think you have enough information, and I think it ought to be

something that the public sector ought to be able to deal with in terms of just gathering the information that you need to address this very question. So, that's the first recommendation.

Professor Tobier: I agree with what Betsy said. I think there has to be a good deal more of fact finding about what is actually happening in the neighborhoods that you're worried about. And, I guess my recommendations are the same as before. The rent regulation system is not flexible enough to deal with the problems of areas in which abandonment or disinvestment will occur. I think it's pretty irrelevant to those areas. The public sector can do something about costs in its ability to determine assessments and tax levels. It can also do something about tenant incomes in low income neighborhoods through the welfare system. But, that's unlikely to happen in the current period though I think it's an important issue. I think those are the limits about what you can do, and I think we pretty much agree that for low income neighborhoods where abandonment is a problem that rent regulation doesn't really matter at this point. Rents are probably close to or above what market rents would be in these areas.

Peter Salins: I will put in my two cents. I think that one of the reasons that the discussion may be irrelevant is that the Rent Guidelines Board is not outside the system designing it or re-designing it, but it is inside the system, part of it, and to that extent is part of the problem. The question is if an institution is part of the problem can it also become part of the solution? That's a neat trick if you can do it. The only suggestion I have and I don't even know if you are capable within your charge to do. You tend to base your final guidelines or to the extent to which you have variable guidelines, the variation is on such things as the length of the lease. You might consider having different guideline rents for different portions of the stock. One way we could accomplish sort of luxury deregulation defacto is for the Rent Guidelines Board to say that all units that are currently renting for... for arguments sake $750 or whatever it is dollars can have considerably higher rent increases. And by compartmentalizing the stock into rental tiers you could protect the most vulnerable while gradually deregulating the upper echelons of that. That may be to some extent relevant to the abandonment issue per se as I think a lot of us have said, because in the short run it's not clear that even with total deregulation units at the bottom of the stock could fetch that much more in rent. In other words, rent increases could be imposed but they may not stick. In other words, the tenants whether they are unable to pay them or whether they are unwilling to pay them and no one else is willing to pay them either, it could very well be at the bottom of the stock it may be difficult to get rent increases whatever the system of rent regulation. But, a gradual deregulation accomplished with a defacto by having a kind of surreptitious deregulation at the top of the market will at least indicate a gradual loosening of the entire housing market. And, since the greatest defenders of the system by and large are the people in the upper echelons of the stock that gain the most benefit it would, I think, undercut some of the political support for the system.

Professor Marcuse: One practical idea is to be very careful what you do with the vacancy allowances and the increases on turnover because that seems to me to be the single biggest impediment to mobility around, that a landlord has the incentive to change tenants, because the rents goes up. If you look at the figures as to what happens on units that are under rent control that then go into stabilization, the rent went up a hundred and seventy-nine percent in the last Housing and Vacancy Survey. That's a function of the fact that after a rent control tenant moves out the new rent is a market rent. It shoots up, and the thing that keeps people in apartments in New York is that they know that, if they get out they're not likely to find another apartment at the same rent level, and if all units were maintained without an increase on vacancy, I think that would facilitate the motion that people through. The second practical suggestion is, not to do luxury decontrol for two reasons, one of them is that once you decontrol a unit, you're not going to recontrol it. So, that if you decontrol on the basis of income you're stuck with removing a unit permanently, even though there may be somebody with a lower income that badly needs it who would otherwise be in it. The other reason is if you want to decontrol the high rent units, then I think you are forcing middle income people out of the City, and I think that's a highly undesirable thing to do. I think the place where one needs to worry is where owners are no longer getting the return they were getting on their investments, not on a speculative investment but on a operating investment, and I did the figures for what past boards have done and the excess of allowed rent over operating costs has consistently gone up. And, I think that's a table worth looking at and a calculation worth looking at. It seems to me that that landlords fairly ought to continue to get what they were getting so that they can pay off their mortgage and get the return on equity that they expected when the invested and that component of it can be held constant. The impractical suggestion I would make is to suggest that the Rent Guidelines Board really ought to work with a good conscience and not with a bad one, not with the feeling that you're taking something away from somebody, but if you were to formulate your problem as what is the best allocation of the increase in values created by the City of New York in its' growth; who should get that, how should it be divided, what is its' best social use. Then, it would seem to me you would still have a tough problem, but you would do it with a good conscience then you would be saying well, if a unit is worth $1,500.00 and the rent is $1,000.00 how shall we handle the five hundred. It doesn't belong to the landlord. It doesn't belong to the tenant. It's something that the City of New York has created. What's the best social way to handle that unit? I think that's why rent stabilization was adopted in New York, is to serve the overall welfare of the people of the City and that's why this Board exists. I think it's a noble undertaking and a tough one and you ought to do it with a good conscience, and not feel intimidated by any of us.

Oda Friedheim: In a sense Professor Marcuse has already made some of the points I wanted to make and thank you for that. In my practice on the lower East Side that I have seen the consequences of what Professor Salins argued earlier which is sort of a defacto decontrol within the regulation system, because this Board unfortunately, for many many years has allowed vacancy increases upon turnover and that in fact along with some other provisions which the rent regulatory system allows, such as individual apartment improvements, has allowed a situation to arise where you have wide discrepancies of rents for the very same apartment. That brings me back to a point that Professor Roistacher was making, which is that the new-comers are locked out of the market and I

would argue that it is precisely the weakness in our rent regulatory system that keep these newcomers out. Rather than deregulate these units, I would argue that we need to strengthen rent regulation and in fact eliminate vacancy allowances and such extra provisions that allow owners to create a charge for the identical apartments $300.00 to one tenant and then over a $1,000.00 to another tenant and the other tenant is typically the one that just recently arrived.

Professor Roistacher: Unfortunately, the new tenant to New York is one who is not likely to be hooked into a system which will allow them to gain the occupancy of one of these regulated units. I think that when a regulated unit comes onto the market at a very good price that somebody new to New York is not likely to be the person who benefits. It's a nice thought, but I think that's not a way to increase the opportunity for new tenants in terms of the practical way that the market seems to operate.

Janice Robinson: Professor Roistacher just clarify for me. On a practical level where is the positive social value in deregulating the higher end of the market if the middle class is going to move out and the working class still will not be able to afford those apartments?

Professor Roistacher: I think the practical social value is first of all not all of the middle class will move out. Some of it will perhaps move into owner occupied housing within the city. But, also part of the practical value is that newcomers will have an opportunity... I really think that there will be a change in the rent structure and that there will be an opportunity for a new middle class to come in. A different middle class but a new middle class to come in.

Janice Robinson: What do you envision in terms of income level? What do you mean by a new middle class?

Professor Roistacher: I think single people who are just starting out on jobs will be able to come in, and I don't think that they have to be people starting out at exorbitant salaries on Wall Street, but I think that the opportunities for employment and for young people to move into the city will be dramatically improved. And, that is a potential new middle class. And, also I think Manny is emphasizing that there has been a lot of in-migration and there would be housing that would be affordable to working class people if we had more of a housing market. If we freed up a lot of the units.

Janice Robinson: My one quick comment is that the new families on the lower end are really families and not single people as much, and I think their expenses will not allow them to afford that kind of housing.

Professor Roistacher: I think that the rent structure would be a lot broader than most of us have the impression of. A lot of our impression of what rents would look like come from articles in the New York Times about what's going on for prime housing in Manhattan, and there is a much bigger housing market out there. And, the opportunities- even for some families-would also be available. But, I think we do have this narrow notion that the market is based on the New York Times Real Estate Section.

Aston Glaves: Yes Professor Marcuse.

Professor Marcuse: Just a real quickie. I have never seen distribution of the benefit. of rent control by family size, but I would suspect that families benefit substantially more from rent stabilization than singles. Fifty-three percent of all Manhattan residents in '87 were singles. Intuitively those that are now in the stabilized apartments are more likely to be the lower mobility larger apartments. Do you have figures?

Professor Salins: I haven't got figures, but I think it's quite clear that singles are more likely to be beneficiaries and elderly singles are probably...

Professor Marcuse: Leaving aside the elderly.

Professor Salins: I think that you can't leave... the elderly is an important part of the market. But, I think that small households benefit considerably. The misallocation that the critics of rent regulation point to is not just a misallocation by income group, but it's also a misallocation in terms of the relationship of household size and dwelling unit size.

Professor Marcuse: But, that's because of vacancy decontrol and there the point I think is quite (inaudible)

Professor Salins: I think that if we had no difference in the regulation upon vacancy you would still find that you would get an enormous misallocation with small households occupying much larger dwellings than they would need.

Aston Glaves: Professor Tobier.

Professor Tobier: For something that's been around for fifty years, to get back to a point I made earlier, and that has been through a lot of modification from a very inflexible system to a quite flexible system now; I think that's that an important evolutionary change in the way the rent control is operated. But, to make really far reaching changes in something that's been around so long and is really a part of the woodwork, I would not be eager to see the results of that experimentation in terms of what it would do to bringing in new families and changing the middle class and infusing new values. I think you are going to end up with a lot bigger mess and a lot more upset people and a lot less investment than you think... you're going to get a lot more unhappiness. So, I am all for stability.

Aston Glaves: Mr. Kirkland.

Galen Kirkland: A good majority of the households in New York City are people who make less than $25,000 a year. In listening to many of the comments this evening especially from those who advocate elimination of the rent regulation system or vacancy decontrol, it's been impossible for me to understand what it is that makes them believe those people are still going to be able to make it without this type of protection. I worked for ten years on 116th Street in the heart of an area where we had massive abandonment, and the history of that neighborhood was one where many landlords milked those buildings for a number of years without providing any of the most basic services in terms of heat or hot water or anything else, and then left. And, in listening to much of that testimony it reminded me of my experience in Harlem growing up when it was clear that in a range of social service concerns we were being abandoned — by the police, in terms of health care, a whole range of human needs not being met. In part because of racism, and that's something that we really didn't get into, but it's something that struck me as I read the materials including the report from the Federal Government where they had a definition, which I would like to

read from, it said: "Healthy neighborhoods contain homogeneous populations in terms of race." You know, and I am thinking to myself don't we see that so many of these places where property has been abandoned are African American and Latino neighborhoods? Don't we see that 95% of the homeless are African American and Latino? Don't we see in recent reports about how the food prices are higher in the low income communities? So, one of the problems we are confronted with is the attempt to try to apply some theoretics of pure logic in understanding the incentives or the motives of landlords when that's not necessarily the way in which they are operating. We can't forget the fact that as we grapple for a fair return on investment there are many many people out there who are motivated by greed and they are not going to be satisfied by that. And, because of our responsibilities, when I hear people talking about decontrol, vacancy decontrol and elimination of rent regulation in the context where the majority of the people in this City, by the way practically 60% of whom right now are African American, Latino and Asian American would be left totally unprotected from the ravages of what we've seen to be the result of their abandonment by these types of attempts to protect them against the more powerful bargaining power of landlords, it is just impossible for me to understand the moral or even logical underpinnings because of the fact that we're dealing with so many variables including the history of what happened with vacancy decontrol in the early 1970s — which was a disaster. I just would love to hear from Professor Salins or Roistacher what it is that gives you this conviction in the statements that you make that the implementation of your ideas will not lead to devastating pain, suffering and even loss of life on the part of many people who cannot compete on the upper scale of market and who would be left totally unprotected.

Professor Salins: I'm not going to pretend that I can close the gap of understanding on this particular point. A number of issues. First of all, if the status quo were terrific and we were happy with housing conditions in New York, we could say well the economists have all these theories on the way the markets work but somehow miraculously, against all economic logic here in New York we've created this housing paradise and we dare not tamper with it. Well, I think that if that were the case I would also have said... let's leave it alone. I think though we're not particularly happy with housing conditions in the City, and I think that... we do think that the generally poor housing conditions... obviously some of us think that they are related to the long term impact of rent regulation on the overall quality of the stock. But, in terms of the issue of exactly what would happen to these households if we were to deregulate, I think most of the people that have advocated deregulation, Professor Roistacher, myself, others, want to protect incumbents. In other words, in no case are we saying that the people that are presently, particularly not the low income residents of regulated housing will face rent increases any larger than the ones that they would face right now. Even in my remarks to Mr. Forstadt earlier it was the upper end of the rent range where I suggested you have the larger guidelines. So, I think we can design a system where incumbents are protected and particularly low income incumbents.

Galen Kirkland: One personal experience I had in West Harlem, was a phone call in my office from tenants in a building who were being illegally evicted, and I went over to the building and the owner had sent over a team to seal the building while people were still inside, not obviously to entomb them, but to intimidate them to leave. I saw this with my own eyes. What makes you think that the creation of an incentive through vacancy decontrol to displace those tenants by illegal means would not lead to a significant increase in tenant harassment?

Professor Roistacher: First of all Peter made the point that the CBC report doesn't recommend... he didn't say this specifically, but implicit in what he said was the recommendations were not for deregulation and in particular the object was not to deregulate people, not just low income people but many moderate income households. So, that's the first point. Second point is that the evidence is that rent regulation hasn't been doing a lot for some portions of the low income population of New York, some it has and some it hasn't, it's mixed. But, in terms of the vacancy decontrol issue, vacancy decontrol by itself has a lot of potentially adverse affect. But, I think that vacancy decontrol combined with a higher income decontrol is very very different solution, and one would hope that there would be enough turnover and movement in the market so that the incentives for harassing would be quite different. First of all I haven't seen good evidence on what happened in the 1971 to '74 period. But, by the same token, vacancy decontrol by itself is not a very good solution. Something though which opens up the housing market and gives the landlords an opportunity to feel that they are getting a better rent structure should take the pressure off those units where lower income tenants are. Those units also, even if the tenants moved out or not- are not likely to be high rent units. They are just not likely to be the higher rent units.

Aston Glaves: Mr. Marrero.

Victor Marrero: Aston Glaves began the presentation this evening by summarizing the major distance that divides the people most interested in our process, the landlords and the tenants, and we see that year after year when we have the annual process here of attempting to arrive at the guidelines we have the tenants condemning the process and the policies of this Board for having increases that are too high and price indices that are unreliable and income operating statements that are not reliable. And, owners on the other hand attack our policies as having increases that are not high enough leading to abandonment and disinvestment. Given such a vast distance between the views of the parties, is there some fundamental weakness in the way this Board has approached its function over the years that you believe exists? Is there something wrong with our methodology or policies that leads to such diametric views? If you were to restructure or to start anew with a system of approaching this Board's function, what changes would you make from what we do now in order to perhaps bring the parties who are affected into a feeling of greater consensus that the process is fair and has integrity?

Professor Tobier: You're really lumbered by what your supposed to do. You really haven't got the mandate, or the staff or the resources, and you shouldn't have. If you started to create classes of housing tenants and determine what rents are for different income groups and for different parts of the City, etc. it would be a mess. It wouldn't work. I think what you have is sort of a rough system in a City that depends on rental housing. In a City that has really built in inflationary bias where

housing is tight, contentious and costly, you should maintain a feeling of stability in sort of giving a rough order of magnitude of rent increases to try to keep tenants on average happy, and to keep landlords still in the market. Given the situation you're in, I don't see what else you can do. I don't know how to improve that. I certainly wouldn't go toward greater detail... more flexible and differentiated sets of guidelines. I think you've already gone too far in that direction.

Victor Marrero: So, you're saying that the rent system that we have now is inevitable and perhaps the best system in the best of all possible worlds?

Professor Tobier: No, I don't know about the best of all possible worlds, I'm not in that business, but it's a rough system... it's I think what's workable and what's the best in present circumstances.

Professor Salins: I think Manny's probably right, but I think that the point that can be made is that the adversarial relationship between owners and tenants is exacerbated in the rent regulated environment. I am not saying that in unregulated cities people love their landlords, but I think they hate them less, and I think that this kind of system and your function as arbitrators probably exacerbates the distance between owners and tenants.

Aston Glaves: Professor Marcuse.

Professor Marcuse: I was going to say it's theoretically possible, and the Board might like it, if you have a formula and computer into which you would simply feed in costs of brooms and soap and some yard stick, like TVA for what efficient management is and then the computer would simply say each year what the adjustment should be and you wouldn't have to exist in a sense and then could go home and spend your evenings with whom you want to. That was the hope when the Rand Corporation set up this whole rent control maximum base rent system and tried to get everything on computers and the hope was that once you've straighten it out a single time, from then on it's an adjustment that a machine can make. I don't think you'd ever get an agreement on the formula that ought to be used in the machine. The suggestion I would have, I guess is this, to some extent you have to do that yourselves and that's why you need whatever reasonable resources there ought to be to find out what the figures are. And, the other thing that I think you need to do and probably do do, is listen to the people that come to testify not so much to pass moral judgment but to get a feel of what's good for the City as a whole. And, that's a tricky thing to do. I don't think that all landlords are greedy, and, I don't think all tenants drink, although some tenants drink and some landlords are greedy. But, there is some conception of what's happening in the City that you can really only get from the kinds of stories that you get in your public hearings. I would guess that there would be a tendency on the part of a Board like this to stop listening to people that appear at hearings, to figure that, what the hell, these people come every year and they always say the same thing, and they always holler at each other and what's the use. But, it seems to me you ought to try to get a sense of whether things are getting worse for most people in the City or better and what you could do to help within the parameters of what the figures show and to do it all with a good conscience. I think it's a noble endeavor you are in.

Aston Glaves: I think we have just about almost reached the end of the evening. We started out with the subject of abandonment, and it would seem to me at the suggestion of the panel we drifted into the other areas that are certainly of great importance to the Guidelines Board. Just to have a very simple question to end on the subject that we started with — abandonment, the records show that whereas we had a large percentage of abandonment in the seventies and then we tapered off at the moment we are again beginning to show signs of moving in that direction. The panel seemed to have agreed that rent regulations really do not have any effect on what is happening in that area. Someone just quickly try to state what are the forces as you see them at the moment that are creating the trend that we now see.

Professor Tobier: I thought that you weren't clear as to the trends you were seeing. The preliminary data didn't indicate that there was at this point much of an upsurge in abandonment. Is that right?

Timothy Collins: There is a greater concern. There are hints of stress that go beyond a simple down-turn.

Joseph Forstadt: If you define abandonment to include in-rem and the City's taking over the property then it seems all of the indicia is to anticipate a huge inflow of properties into the City's control.

Professor Tobier: I think if that happens I think you really have a wider issue than anything that you can confront here. And I think that one of the problems now as I see it as someone who has tried to research this over the years is it's almost impossible for anyone short of the Pope or the President to get data from the Finance Department that gives you an accurate picture of it. I don't know why that's the case, but it is. And, I think you really have an opportunity to get this information, analyze it and disseminate it because I think that that would be an important area that should be monitored and if that happens I think we ought to call another meeting to discuss it. Right now, no one knows what's going on including you and certainly me.

Professor Salins: I all along was sort of an uneasy member of Peter's coalition of people who thought that the connection was entirely absent. I think that if there were really an indication that deregulation was in view there would be I think an upward capitalization of the housing stock which would retard the abandonment process. In other words, some people would feel that their properties will be worth more in the future than they are now. In terms of what could the City do, which is entirely outside of your scope, in a short run to dramatically reduce the incidents of potential abandonment it would be to lower the property taxes in the areas where abandonment is a risk because as Professor Tobier and many other people have pointed out a lot of the at risk properties are way over-assessed. So, in terms of another agency than yours that could do some good it would be a fairly rapid reduction in property tax assessments.

Aston Glaves: Let me say thanks very much to the panel for being with us until this hour. We certainly have appreciated the time that you have spent with us, and it has been very helpful and informative to the members of the Board.

Thanks again. □