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 percent-age 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.

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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 Q-5 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; "vacant" and "co-op/condo" were the most frequent explanations.

In excluding buildings from the 1985 sample, HPD did

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

Other
17%

Vacant
23%

Motel
11%

Zero SRO Units
3%

Co-op/Condo
22%

Luxury Hotel
24%
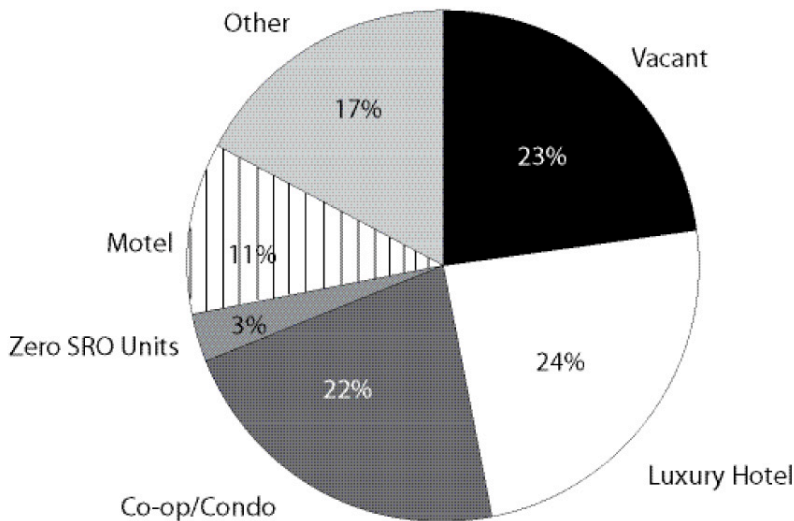
Source: NYC Department of Housing Preservation and Development.

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.
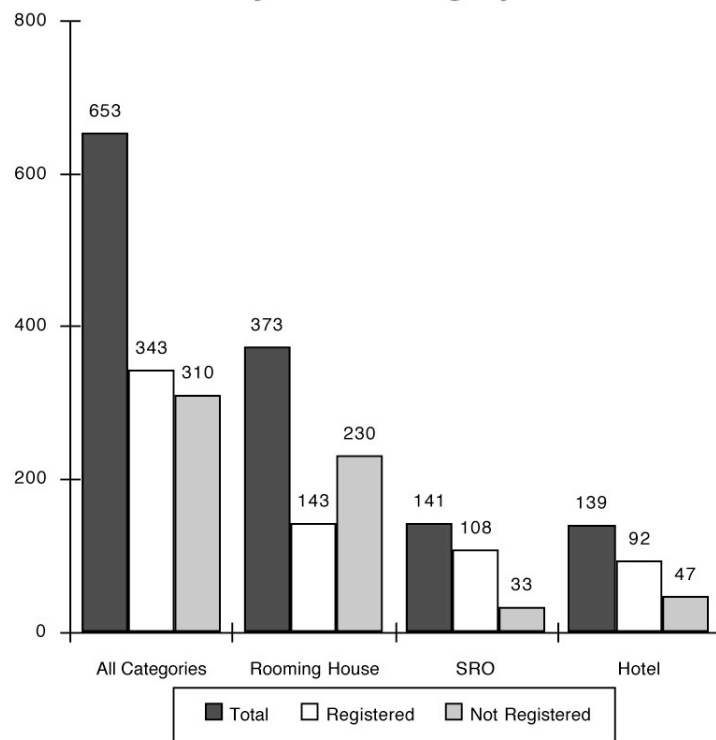
see that 47% of all buildings failed to register, including 34% of hotels, 23% of SROs and fully 62% of rooming houses.

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 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**

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

Registered and Non-Registered Buildings by Hotel Category

| | 653 | 343 | 310 | 373 | 143 | 230 | 141 | 108 | 33 | 139 | 92 | 47 |

All Categories | Rooming House | SRO | Hotel

Total | Registered | Not Registered

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

(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 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

Registered Buildings, 1984-89

Source: NYS Division of Housing and Community Renewal, 1985 SRO Study.
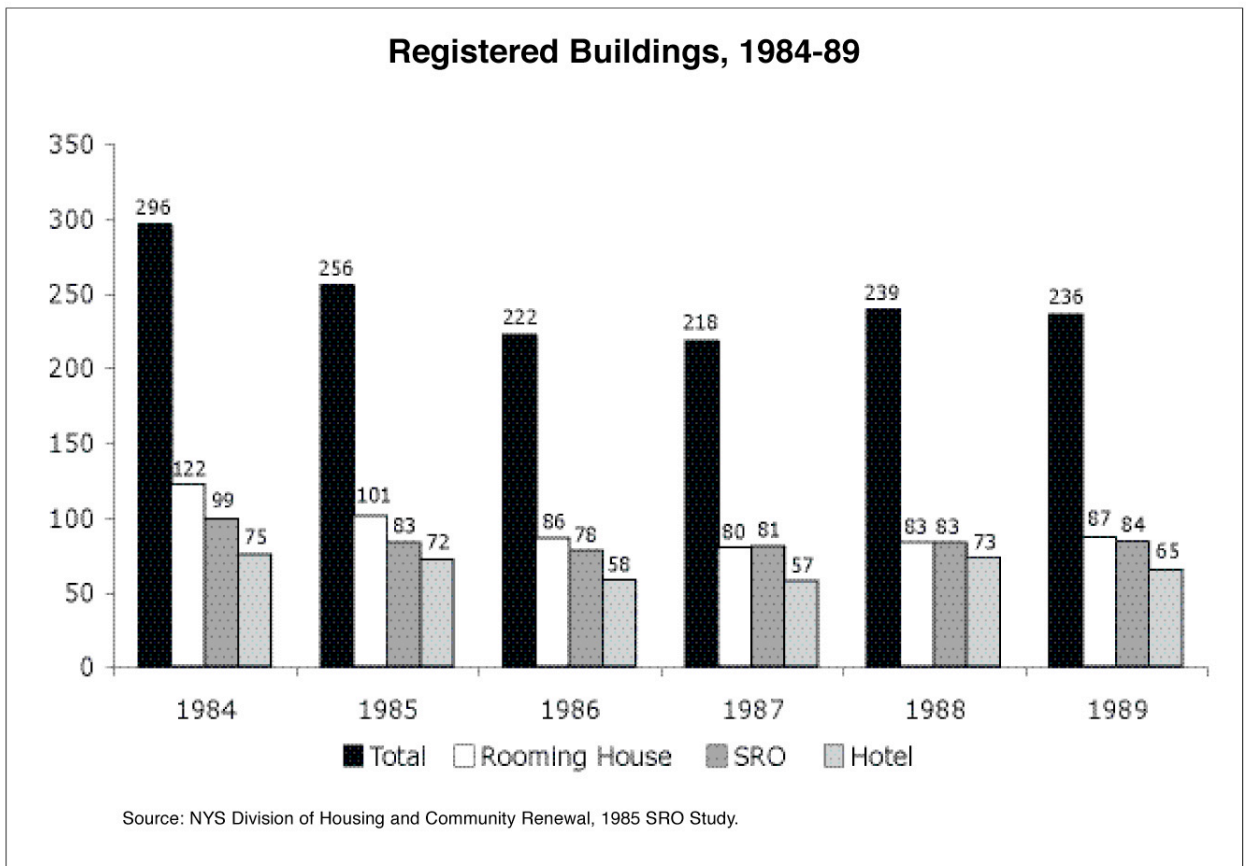
among the three categories of hotels. While rooming houses contain an average of 13 units per building, hotels have 162 units. SROs are in between with 70 units. Within each of the three groups, buildings which are registered are, on average, larger than those which have not registered. For instance, 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.
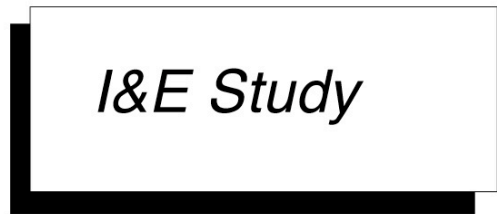
I&E Study

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.
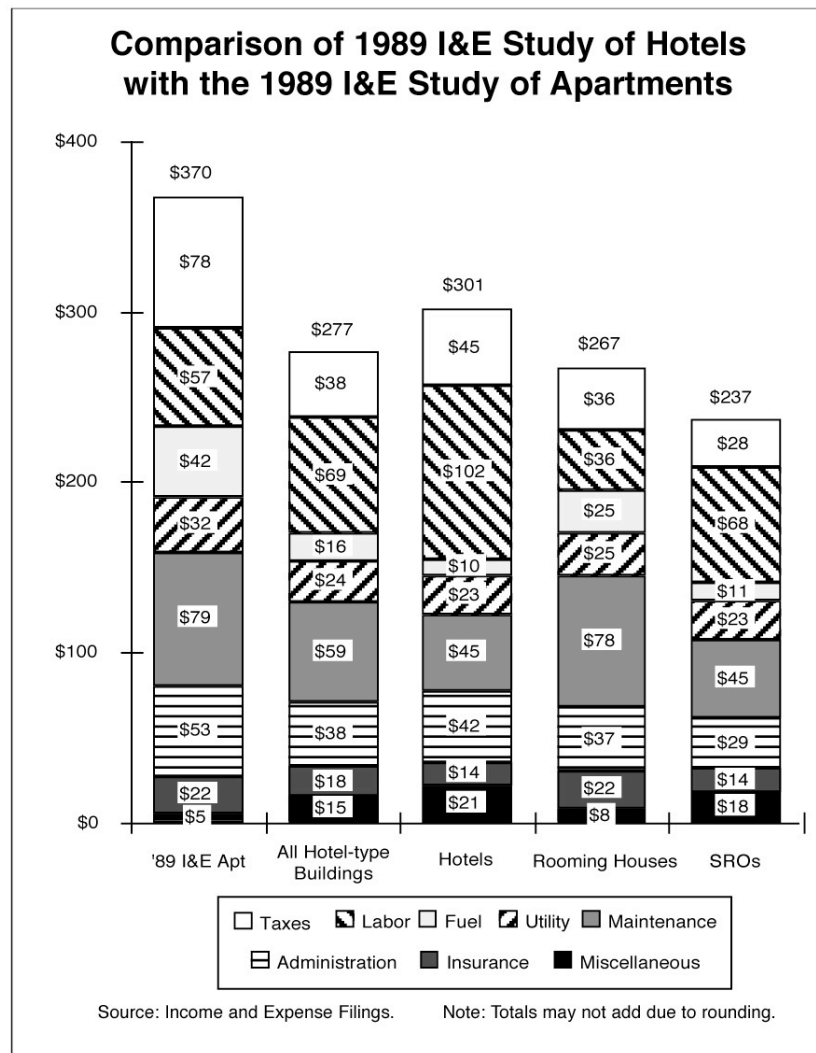

Operating & Maintenance Costs

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 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

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.

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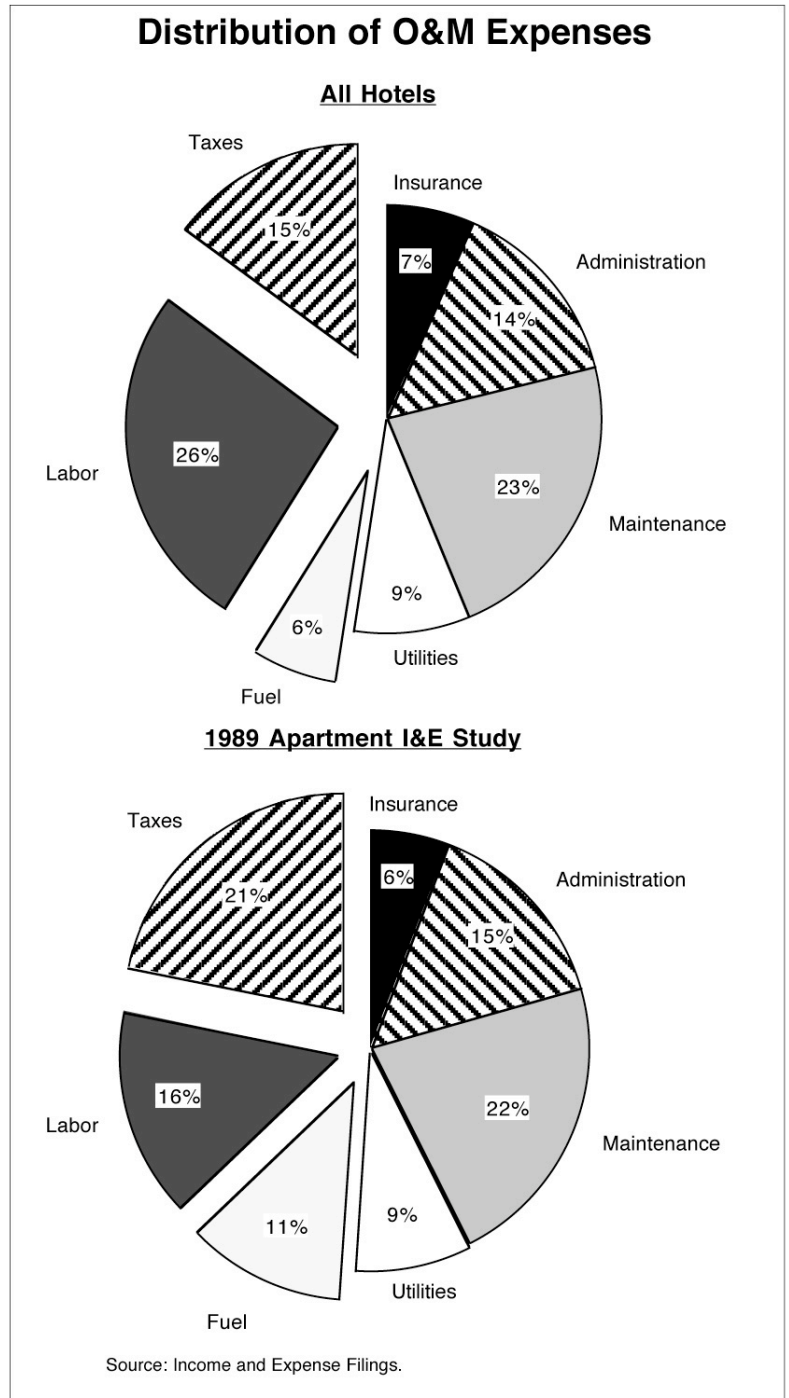
The best explanation for the huge difference in labor costs between hotels and rooming houses is in building size. A rooming house can not have more than 29 units whereas hotels have a minimum of 30 units. Hence, due to labor expenses such as front desk clerks, maid services and superintendents, labor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

Distribution of O&M Expenses

All Hotels

Taxes 15%
Insurance 7%
Administration 14%
Maintenance 23%
Utilities 9%
Fuel 6%
Labor 26%

1989 Apartment I&E Study

Taxes 21%
Insurance 6%
Administration 15%
Maintenance 22%
Utilities 9%
Fuel 11%
Labor 16%

Source: Income and Expense Filings.

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
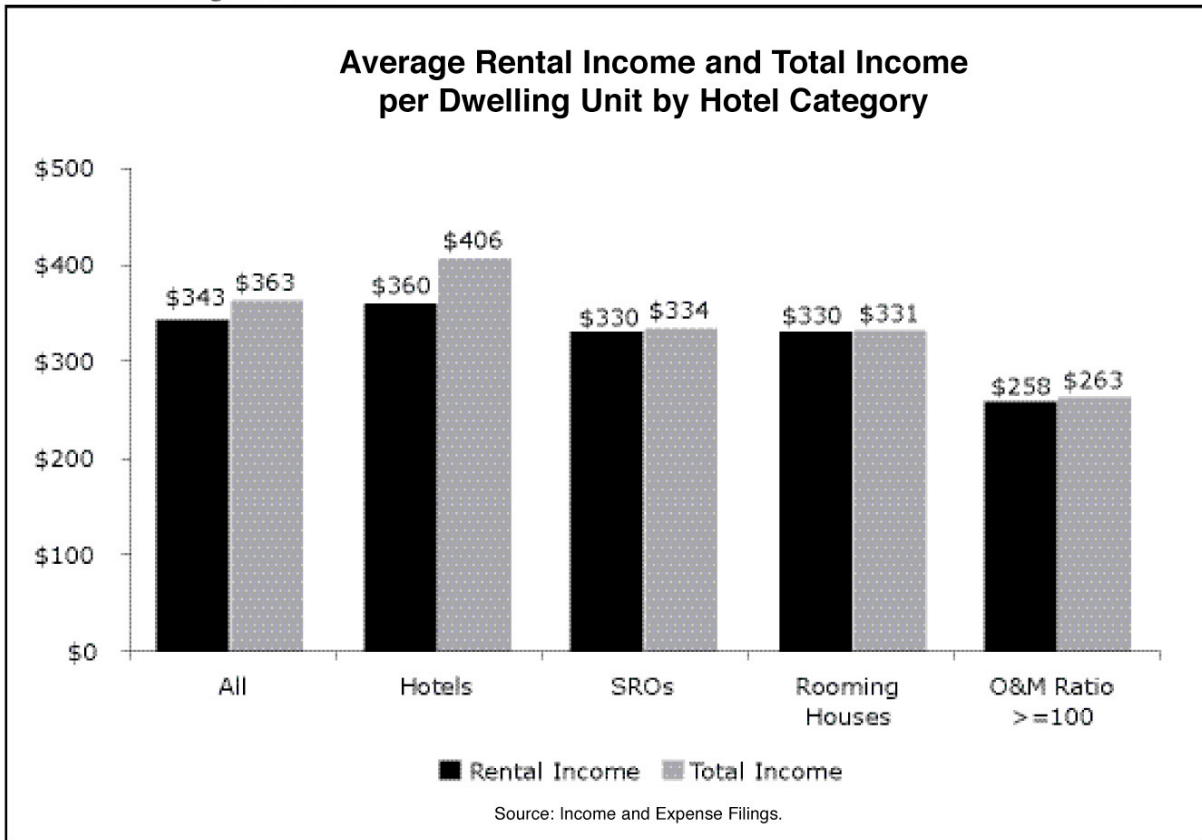
Average expenses for residential buildings is $253.

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

Average Rental Income and Total Income per Dwelling Unit by Hotel Category

Category	Rental Income	Total Income
All	$343	$363
Hotels	$360	$406
SROs	$330	$334
Rooming Houses	$330	$331
O&M Ratio >=100	$258	$263

Source: Income and Expense Filings.

(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 "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.

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.