

# **EXPLANATORY STATEMENT - APARTMENT ORDER #43**

## **Explanatory Statement and Findings of the Rent Guidelines Board In Relation to 2011-12 Lease Increase Allowances for Apartments and Lofts under the Jurisdiction of the Rent Stabilization Law<sup>1</sup>**

### **Summary of Order No. 43**

The Rent Guidelines Board (RGB) by Order No. 43 has set the following maximum rent increases for leases subject to renewal on or after October 1, 2011 and on or before September 30, 2012 for **apartments** under its jurisdiction:

For a **one**-year renewal lease commencing on or after October 1, 2011 and on or before September 30, 2012: **3.75%**

For a **two**-year renewal lease commencing on or after October 1, 2011 and on or before September 30, 2012: **7.25%**

### **VACANCY ALLOWANCE**

The vacancy allowance is now determined by a formula set forth in the State Rent Regulation Reform Act of 1997 and in Chapter 97 of the Laws of 2011, not by the Orders of the Rent Guidelines Board.

### **SUBLET ALLOWANCE**

The increase landlords are allowed to charge when a rent stabilized apartment is sublet by the primary tenant to another tenant on or after October 1, 2011 and on or before September 30, 2012 shall be **10%**.

### **ADJUSTMENTS FOR LOFTS**

For **Loft units** to which these guidelines are applicable in accordance with Article 7-C of the Multiple Dwelling Law, the Board established the following maximum rent increases for increase periods commencing on or after October 1, 2011 and on or before September 30, 2012. No vacancy allowance is included for lofts.

<u>1 Year</u>	<u>2 Years</u>
<b>3.75%</b>	<b>7.25%</b>

The guidelines do not apply to hotel, rooming house, and single room occupancy units that are covered by separate Hotel Orders.

Any increase for a renewal lease may be collected no more than once during the guideline period governed by Order No. 43.

### **SPECIAL GUIDELINE**

Leases for units subject to rent control on September 30, 2011 that subsequently become vacant and then enter the stabilization system are not subject to the above adjustments. Such newly stabilized rents are subject to review by the State Division of Housing and Community Renewal (DHCR). In

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<sup>1</sup> This Explanatory Statement explains the actions taken by the Board members on individual points and reflects the general views of those voting in the majority. It is not meant to summarize all the viewpoints expressed.

order to aid DHCR in this review the Rent Guidelines Board has set a special guideline of whichever is greater:

1. **30%** above the maximum base rent, or
2. The Fair Market Rent for existing housing as established by the United States Department of Housing and Urban Development (HUD) for the New York City Primary Metropolitan Statistical Area pursuant to Section 8(c) (1) of the United States Housing Act of 1937 (42 U.S.C. section 1437f [c] [1]) and 24 C.F.R. Part 888, with such Fair Market Rents to be adjusted based upon whether the tenant pays his or her own gas and/or electric charges as part of his or her rent as such gas and/or electric charges are accounted for by the New York City Housing Authority.

Such HUD-determined Fair Market Rents will be published in the Federal Register, to take effect on October 1, 2011.

All rent adjustments lawfully implemented and maintained under previous apartment Orders and included in the base rent in effect on **September 30, 2011** shall continue to be included in the base rent for the purpose of computing subsequent rents adjusted pursuant to this Order. In addition, if it is otherwise consistent with law to include in the base rent on **September 30, 2011** the longevity-based one- and two-year renewal lease adjustments in Orders Nos. 40 and 41, then such adjustments shall also be included in the base rent for the purpose of computing subsequent rents adjusted pursuant to this Order.

## **BACKGROUND OF ORDER NO. 43**

The Rent Guidelines Board is mandated by the Rent Stabilization Law of 1969 (Section 26-510(b) of the NYC Administrative Code) to establish annual guidelines for rent adjustments for housing accommodations subject to that law and to the Emergency Tenant Protection Act of 1974. In order to establish guidelines the Board must consider, among other things:

- (1) the economic condition of the residential real estate industry in the affected area including such factors as the prevailing and projected (i) real estate taxes and sewer and water rates, (ii) gross operating and maintenance costs (including insurance rates, governmental fees, cost of fuel and labor costs), (iii) costs and availability of financing (including effective rates of interest), (iv) overall supply of housing accommodations and overall vacancy rates;
- (2) relevant data from the current and projected cost of living indices for the affected area;
- (3) such other data as may be made available to it.

The Board gathered information on the above topics by means of public meetings and hearings, written submissions by the public, and written reports and memoranda prepared by the Board's staff. The Board calculates rent increase allowances on the basis of cost increases experienced in the past year, its forecasts of cost increases over the next year, its determination of the relevant operating and maintenance cost-to-rent ratio, and other relevant information concerning the state of the residential real estate industry.

### **Material Considered by the Board**

Order No. 43 was issued by the Board following **two** public hearings, **seven** public meetings, its review of written submissions provided by the public, and a review of research and memoranda prepared by the Board's staff. Approximately 86 written submissions were received at the Board's offices from many individuals and organizations including public officials, owners and owner groups, and tenants and tenant groups. The Board members were provided with copies of public comments received by the **June 20, 2011** deadline. All of the above listed documents were available for public inspection.

Open meetings of the Board were held following public notice on March 15, March 31, April 14, April 28, and June 2, 2011. On **May 3, 2011**, the Board adopted proposed rent guidelines for apartments, lofts, and hotels.

Public hearings were held on **June 16, 2011** and **June 20, 2011** pursuant to Section 1043 of the New York City Charter and Section 26-510(h) of the New York City Administrative Code. Testimony on the proposed rent adjustments for rent-stabilized apartments and lofts was heard from **4:30 p.m. to 7:50 p.m. on June 16, 2011** and from **10:00 a.m. to 7:25 p.m. on June 20, 2011**. Testimony from members of the public speaking at these hearings was added to the public record. The Board heard testimony from **approximately** 89 apartment tenants and tenant representatives, 23 apartment owners and owner representatives, and 9 public officials. In addition, 2 speakers read into the record written testimony from various public officials. On **June 27, 2011** the guidelines set forth in Order No. 43 were adopted.

A written transcription and/or audio recording was made of all proceedings.

**PRESENTATIONS BY RGB STAFF AND HOUSING EXPERTS INVITED BY MEMBERS OF THE BOARD**

Each year the staff of the New York City Rent Guidelines Board is asked to prepare numerous reports containing various facts and figures relating to conditions within the residential real estate industry. The Board's analysis is supplemented by testimony from industry and tenant representatives, housing experts, and by various articles and reports gathered from professional publications.

Listed below are the other experts invited and the dates of the public meetings at which their testimony was presented:

<i>Meeting Date / Name</i>	<i>Affiliation</i>
<b>March 15, 2011:</b>	Staff presentation, <i>2011 Mortgage Survey Report</i>
	<u>Guest Speaker</u>
1. Steven Lawitts	Executive Director, NYC Water Board and Chief Financial Officer of DEP
<b>March 31, 2011:</b>	Staff presentation, <i>2011 Income and Affordability Study</i>
	<u>Guest Speaker</u>
1. Joseph Rosenberg	Senior Counsel, State Legislative Affairs, NYC Department of Housing Preservation and Development
<b>April 14, 2011:</b>	<u>Staff presentations</u> <i>2011 Price Index of Operating Costs</i> <i>2011 Income and Expense Study</i>
<b>April 28, 2011:</b>	
	<u>Apartment Tenants group testimony:</u>
1. Michelle de la Uz	Fifth Avenue Committee
2. Tom Waters	Community Service Society
3. Patrick Markee	Coalition for the Homeless
4. Evan Hess	Northern Manhattan Improvement Corp.
	<u>Apartment Owners group testimony:</u>
1. Jack Freund	Rent Stabilization Association (RSA)
2. Joseph Condon	Community Housing Improvement Program (CHIP)
3. Jimmy Silber	Small Property Owners of New York (SPONY)
4. Lester Clarke	Property Owner
5. David Fleming	Property Owner
	<u>Hotel Tenants group testimony:</u>
1. Anderson Fils-Aime	Goddard Riverside SRO Law Project
2. Jonathan Burke	MFY Legal Services Inc.
3. Larry Wood	Goddard Riverside Family Council
<b>June 2, 2011:</b>	<u>Staff presentations</u> <i>2011 Housing Supply Report</i> <i>Changes to the Rent Stabilized Housing Stock in New York City in 2010</i>

NYS Division of Housing and Community Renewal (DHCR)  
testimony

1. Woody Pascal Deputy Commissioner for Rent Administration
2. Guy Alba Assistant Commissioner for Research and Analysis
3. Michael Rosenblatt Assistant Commissioner for Rent Administration

SELECTED EXCERPTS FROM ORAL AND WRITTEN TESTIMONY FROM OWNERS AND OWNER GROUPS<sup>2</sup>

Comments from owners and owner groups included:

“The majority of rent stabilized apartments, and the majority of RSA’s membership, exist outside the high-rent Manhattan core. The majority of stabilized properties are in neighborhoods where the rent is nowhere near \$2,000 per month and where tenant incomes rarely breach six figures. These properties have lower rents, lower net operating incomes and higher operating ratios.”

“For at least the last decade, the Board has issued a PIOC and then discounted it by issuing a lower guideline. First, the cumulative impact of these discounts amounts to 52% over the last 10 years (compounded PIOC’s over the ten years to 2010 amount to 70.87%, compounded one-year guidelines over the same period amount to 33.96%). A discount of this size cripples cash flow to fund building operations. The Board states that the discount is all that is needed to fund operations because expenses are only a portion of revenues. This argument fails for a number of reasons: it neglects the 12% of rent stabilized buildings for which expenses exceed income; and, it ignores the additional 31% of buildings for which income and expenses are approximately equal. Accordingly, 43% of rent stabilized buildings are an exception to the Board’s stated reason for discounting the PIOC.”

“We landlords come here year after year to ask about relief from the long term tenant discount, and under your Orders 40 and 41, the Rent Guidelines Board granted us some relief...I’m urging that you use the power affirmed by the Court of Appeals to partly remedy the problem that the long term tenant discount has created for building finances. The board should enact a minimum increase this year of at least \$65 for a one year lease and \$95 for a two year lease. ”

“No one in the housing industry in the city of New York will dispute that our costs for real estate taxes and water have had double-digit increases over the past years. Heating oil is through the roof. No one would argue that the paperwork costs regarding city-state and federal agencies and their requirements and over-regulation have increased significantly. People know that affordable housing is a sacred resource. The City tried back in the 70’s and 80’s to run affordable housing, and it failed, they could not do it. They divested. It takes dedicated owners to make it work.”

“We all have to share the burden of rising costs. Vendors pass onto us as government passes increases onto them. We need to pass some onto the tenants.”

SELECTED EXCERPTS FROM ORAL AND WRITTEN TESTIMONY FROM TENANTS AND TENANT GROUPS<sup>3</sup>

Comments from tenants and tenant groups included:

“More New Yorkers experience homelessness than ever. During last city fiscal year, more than 113,000 New Yorkers – including nearly 43,000 children – slept in municipal shelters. This is an 8 percent increase from the previous year, and a 37 percent increase from when Mayor Bloomberg took office. During last city fiscal year, nearly 29,000 NYC homeless families slept in municipal shelters. This is a 10 percent increase from the previous year, and a remarkable 81 percent increase from when the Mayor took office.”

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<sup>2</sup> Sources: Submissions by owner groups and testimony by owners

<sup>3</sup> Sources: Submissions by tenant groups and testimony by tenants.

“[Fifth Avenue Committee] has seen firsthand how vacancy decontrol combined with other gentrification pressures often spurred by public policy decisions such as rent increases and re-zonings, has actually reduced the number of rent regulated units in the communities we serve while the demand has gone up considerably. For all these reasons and to ensure socio-economic diversity in NYC, we must hold the line on rent increases in rent stabilized housing. Anything short of this will be devastating to communities and millions of families in New York City.”

“It is evident that New York City is in an economic downturn and the individuals who are most affected by that are the working poor rent regulated tenants my office represent...During these difficult times, the question you should pose is who should bear the burden of this economic crisis, the tenants through rent increases or the landlords through rent freezes. The answer is simple.”

“My fellow tenants and I have heard the same singular litany from landlords year after year, that costs are going up—always. And, of course, costs sometimes do go up. But occasionally they go down as well, and yet our landlords never seem to inform us of that. For instance, as a recent (June 18, 2011) *New York Times* article points out, in July 2008 oil prices peaked at \$147 a barrel, but five months later they had plummeted to \$33 a barrel, a decline of almost 80%. Curiously, though, our landlords never notified us of that precipitous drop in costs, let alone offering to pass along to us the savings.”

“The guidelines proposed are much higher than rent stabilized tenants can afford and will exacerbate an already desperate housing situation in New York City. Tenants in rent stabilized housing face extreme financial hardships, while the Rent Guidelines Board (RGB) data show that owners’ profits have increased in the current economy. Landlords do not need the rent adjustments approved by the Board”

#### SELECTED EXCERPTS FROM ORAL AND WRITTEN TESTIMONY FROM PUBLIC OFFICIALS<sup>4</sup>

Comments from public officials included:

“New York’s rent regulated tenants simply cannot afford another rent increase. In fact, passing additional financial burdens onto tenants, many of whom are still reeling from prior increases, would be an unfair and unnecessary hardship, particularly given that the RGB’s own *2011 Income and Expense Study* shows that landlords’ operating costs from 2008-2009 increased by only 0.1% while Net Operating Income increased by 5.8%.”

“I believe that the RGB has a responsibility to protect tenants that have been much more severely affected by the current recession than the owners of their buildings. Statistics clearly indicate that the past three years have taken a far larger toll on the pocketbooks of regulated tenants than on their landlords... Wage rates are not growing, job growth has been bleak and current indicators show that we are not coming out of the recession and the economic forecast may be getting even bleaker. While the economic condition of average New Yorkers has gotten worse, building owners have done just fine.”

“To the extent that increases are necessary at all, they should be consistent with the objectives of affordability, habitability and fair returns for owners—as well as with the overarching City policy. Thus, for the reasons mentioned above, I urge you to seek the lowest of possible increases, to reject the fuel surcharge and to exempt from increases frequently vacant apartments and those in buildings with immediately hazardous conditions.”

“Even if the rent increases ultimately approved are at the low end of the proposed ranges, I have serious concerns about what this decision would mean for the more than 2.5 million low-, moderate- and middle-income rent stabilized tenants of New York City who are already facing a crisis of affordability and the aftermath of the worst recession since the Great Depression... I strongly

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<sup>4</sup> Sources: Submissions by public officials.

encourage the RGB to reconsider its preliminary vote and to enact lower guidelines. Such a decision would be entirely consistent with the legislative mandate and jurisdiction of the RGB.”

“Board members are aware that the city’s unemployment rate is 9.5% and that there is a chronic lack of job creation, and escalating health costs. Real wages are down: inflation-adjusted wages decreased by 8.4% in 2009, a much higher decrease than the 3.4% decrease experienced in 2008. Landlords are not unemployed, nor victims of low job creation. These burdens fall on their tenants, and to increase their already heavy burdens should be unthinkable.”

## **FINDINGS OF THE RENT GUIDELINES BOARD**

### **RENT GUIDELINES BOARD RESEARCH**

The Rent Guidelines Board based its determination on its consideration of the oral and written testimony noted above, as well as upon its consideration of statistical information prepared by the RGB staff set forth in these findings and the following reports:

- (1) *2011 Mortgage Survey Report*, March 2011, (An evaluation of recent underwriting practices, financial availability and terms, and lending criteria);
- (2) *2011 Income and Expense Study*, April 2011, (Based on income and expense data provided by the Finance Department, the *Income and Expense Study* measures rents, operating costs and net operating income in rent stabilized buildings);
- (3) *2011 Income and Affordability Study*, March 2011, (Includes employment trends, housing court actions, changes in eligibility requirements and public benefit levels in New York City);
- (4) *2011 Price Index of Operating Costs*, April 2011, (Measures the price change for a market basket of goods and services which are used in the operation and maintenance of stabilized buildings);
- (5) *2011 Housing Supply Report*, June 2011, (Includes new housing construction measured by certificates of occupancy in new buildings and units authorized by new building permits, tax abatement and exemption programs, and cooperative and condominium conversion and construction activities in New York City); and,
- (6) *Changes to the Rent Stabilized Housing Stock in NYC in 2010*, June 2011, (A report quantifying all the events that lead to additions to and subtractions from the rent stabilized housing stock).

The six reports listed above may be found in their entirety on the RGB’s website, [www.housingnyc.com](http://www.housingnyc.com), and are also available at the RGB offices, 51 Chambers St., Suite 202, New York, NY upon request.

### **2011 PRICE INDEX OF OPERATING COSTS FOR RENT STABILIZED APARTMENT HOUSES IN NEW YORK CITY**

The *2011 Price Index of Operating Costs* for rent stabilized apartment houses in New York City found a 6.1% increase in costs for the period between March 2010 and March 2011.

This year, the PIOC for rent stabilized apartment buildings increased by 6.1%, 2.7 percentage points more than the PIOC percentage change from the year before (3.4% in 2010). The PIOC was driven upward by a significant increase in fuel oil costs of 23.1%, along with a 7.7% increase in the Utilities

component. More moderate increases were seen in Taxes (3.5%), Administrative Costs (2.9%), Labor Costs (2.7%), Contractor Services (2.7%), Parts and Supplies (3.7%) and Replacement Costs (0.6%). Insurance Costs declined 0.4%. The growth in the Consumer Price Index (CPI) of 1.7% was over four percentage points lower than the PIOC.

The “core” PIOC, which excludes erratic changes in fuel oil, natural gas, and electricity costs, is useful for analyzing long-term inflationary trends. The core PIOC rose by 3.9% this year and was lower than the overall PIOC primarily due to the exclusion of fuel oil costs that rose significantly.

**Table 1**

<b>2010-11 Percentage Changes in Components of the Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City<sup>5</sup></b>			
Item	Expenditure Weights	2010-11 Percentage $\Delta$	2010-11 Weighted Percentage $\Delta$
Taxes	29.05%	3.51%	1.01%
Labor Costs	13.35%	2.66%	0.35%
Fuel Costs	12.96%	23.06%	2.98%
Utility Costs	15.55%	7.66%	1.19%
Contractor Services	12.31%	2.65%	0.32%
Administrative Costs	7.40%	2.88%	0.21%
Insurance Costs	7.28%	-0.36%	-0.02%
Parts & Supplies	1.46%	3.69%	0.05%
Replacement Costs	0.64%	0.64%	0.00%
<b>All Items</b>	<b>100.00</b>	<b>-</b>	<b>6.13%</b>

Source: 2011 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City.  
 Note: The  $\Delta$  symbol means change.

**On June 1, 2011 the staff of the Rent Guidelines Board released a memo to Board members with additional information concerning the 2011 Price Index of Operating Costs. An excerpt of that memo follows:**

This memo is in response to the following data inquires by Brian Cheigh:

- 1) *Could the RGB staff please provide methodology for weighing Oil-heated vs. Gas-heated buildings in calculating the PIOC? When did the data originate, and is there a strategy to identify a new methodology to consider new conversions and dual-fuel buildings of various types?*

The Price Index of Operating Costs (PIOC) measures the price change in a market basket of goods and services used in the operation and maintenance of rent stabilized apartment buildings in New York City. The goods and services which make up the market basket were originally selected on the basis of the findings of a study of 1969 expenditure patterns by owners of rent stabilized apartment buildings. Minor changes in the specification of some of these goods and services have been carried out over time to maintain the representativeness of the market basket. The relative importance of the various goods and services in the market basket was updated in 1983 by means of a study of expenditure patterns of owners of rent stabilized apartment buildings.

Changes in the overall PIOC result from changes in the prices of individual goods and services, each weighted by its relative importance as a percentage of total operating and maintenance (O&M) expenditures. Because the market basket is fixed in the sense that the quantities of goods and services

<sup>5</sup> Totals may not add due to weighting and rounding.



of each kind remain constant, the relative importance of the various goods and services will change when their prices increase either more quickly or more slowly than average. Thus, the relative importance, or weight, attached to each good or service changes from year to year to reflect the different rates of price change among the various index items.

The 1983 Expenditure Study provides a basis for calculating separate sets of expenditure weights for buildings constructed before 1947, for buildings constructed in 1947 or later (post-1946) as well as for gas-heated, oil-heated and master-metered buildings. This allows staff to calculate separate price indices for these five types of building categories. For many years these five indices have been calculated and included as a part of the appendix of the PIOC, which has been distributed and presented to the members of the Board and the public.

This year the PIOC for all buildings was 6.1%. The PIOC for gas-heated buildings was 2.8%, while the PIOC for oil-heated buildings was 7.7%. Heating oil costs measured by the PIOC rose 23.1%. The significant rise in heating oil costs, coupled with the 5.3% decline in the cost for gas, is the simple explanation for the disparity in these two indices.

However, to fully understand the differences between the two indices, one must also take a further look at the difference in expenditure weights for the components and items for each index. In the oil-heated PIOC, the cost for heating oil represents 20.1% of that index. Meanwhile, the two items that represent gas used to heat a building, spec 405 and spec 406, represent about 15% of the total gas-heated PIOC. Therefore, owners of oil-heated buildings have a larger proportion of their expenses dedicated to heating their buildings than owners of gas-heated buildings. To get a better understanding of these two indices, see the weights and price relatives for each item and component in the tables attached to this memo.

In order to determine the accuracy of the PIOC, the RGB traditionally has compared it to the growth in expenses of the *Income and Expense Study*, which summarizes owner-reported expenses from the Real Property Income and Expense (RPIE) forms filed with the NYC Department of Finance. In the most recent comparison, the PIOC rose 3.6% from 2008 to 2009, the same period as the 0.1% increase in I&E costs, a 3.5 percentage point difference. From 1990-91 to 2008-09 the overall nominal costs measured in the PIOC increased at a greater rate, 131.2%, compared to RPIE data, 120.3%, over this period. If you remove the last year from this comparison (2008-2009) the overall nominal costs measured in the PIOC grew by 123.2% and in the I&E Studies by 120.1%. However it is important to note that the gap in these two measurements of expense is somewhat inflated because the change in cost in the *Income and Expense Study* could not be calculated in 2003-2004. (The PIOC in this time period was 6.1%.) Over time, these two measures of expenses have been similar, making the current PIOC a reliable measurement in the changes in owners' overall costs.

The question was asked if the PIOC can be modified to consider new conversions and dual-fuel buildings of various heating types since the time of the last expenditure survey. Since 1983, there have been modifications to the expenditure weights to reflect changes in owner's expenses. For example, in 2001 owners were surveyed to see which type of fuel oil they were using to heat their buildings: #2, #4 or #6. Based on the responses from this survey, the items in the Fuel component were reweighted to reflect a new pattern of usage. Note that the total importance of the Fuel component did not change, but the individual items within the component (#2, #4 and #6 fuel oil) were reweighted to reflect changing usage. It may be possible to update the current PIOC in a similar manner if it can be determined how the universe of rent stabilized buildings are being heated. As of the date of this memo, staff has contacted both the NYC Department of Buildings and the Department of Environmental Protection to obtain this data but has been unable to quantify the heating systems for this universe of buildings. Ultimately, owners of these buildings may need to be surveyed to get an accurate assessment of the impact of gas conversion.

2) *Could the RGB staff provide a PIOC calculating the increases assuming solely gas-heated buildings, and not oil-heated buildings over the last 5 years?*

As stated in the answer to Question 1, the RGB staff has been calculating and reporting a PIOC for gas-heated buildings for several years. Below is the PIOC for gas-heated buildings for the past five years.

Year	PIOC for Gas-Heated Buildings
2011	2.8%
2010	-0.4%
2009	6.9%
2008	4.2%
2007	4.6%

3) *Please calculate the commensurate rent adjustment without the inclusion of Fuel Cost (as defined in the PIOC)*

Throughout its history, the Rent Guidelines Board has used a formula, known as the commensurate rent adjustment, to help determine annual rent guidelines for rent stabilized apartments. In its simplest form, the commensurate rent adjustment is the amount of rent change needed to maintain landlords' current dollar NOI at a constant level. In other words, the formula provides a set of one- and two-year renewal rent increases or guidelines that will compensate owners for the change in prices measured by the PIOC and keep net operating income "whole." For a complete discussion of the commensurate formulas please see pages 11-13 and endnotes 3 through 5 in the *2011 Price Index of Operating Costs*.

The Fuel component for the PIOC is a measure in the change in costs for heating oil. The overall price index for apartments in 2011 was 6.1%. The PIOC excluding the Fuel component is 3.6%. If you use that number to calculate the commensurate formulas you get the following results. Please note that the commensurate lease terms using a price index that excludes the Fuel Cost component are only illustrative—other combinations of one- and two-year guidelines could produce the adjustment in revenue.

#### Calculation of the Commensurate Rent Adjustments Using the 2011 PIOC Excluding the Fuel Component

Commensurate Rent Formula	One-Year Lease Renewal	Two-Year Lease Renewal
Net Revenue Commensurate Adjustment	3%	5.5%
Net Revenue Commensurate Adjustment w/ Vacancy Allowance	1.25%	2.5%
CPI-Adjusted NOI Commensurate Adjustment	3.5%	6.75%
CPI-Adjusted NOI Commensurate Adjustment w/ Vacancy Allowance	2.0%	3.75%
Traditional Commensurate Adjustment	2.5%	4.4%

Note: The lease renewal adjustments in this table were calculated by the RGB staff in response to a request of one of the RGB board members. They do not reflect a permanent change in the methodology to the *2011 Price Index of Operating Costs* of 6.1%, which still includes the Fuel component. Also, the two-year lease renewal adjustment calculated for the Traditional Commensurate Adjustment uses an adjusted PIOC projection that excludes the Fuel component of 5.6%.

## Expenditure Weights, Price Relatives and Percent Change, Oil-Heated Buildings, 2011

Spec #	<b>Apartments</b> <u>Item Description</u>	Expenditure <u>Weights</u>	Price <u>Relative</u>	% <u>Change</u>
101	TAXES, FEES, & PERMITS	0.2705	1.0351	3.51%
201	Payroll, Bronx, All (Union)	0.1260	1.0000	0.00%
202	Payroll, Other, Union, Supts.	0.0928	1.0197	1.97%
203	Payroll, Other, Union, Other	0.2407	1.0193	1.93%
204	Payroll, Other, Non-Union, All	0.2921	1.0305	3.05%
205	Social Security Insurance	0.0426	1.0210	2.10%
206	Unemployment Insurance	0.0061	1.1772	17.72%
207	Private Health & Welfare	0.1997	1.0447	4.47%
	LABOR COSTS	0.1371	1.0263	2.63%
301	Fuel Oil #2	0.5418	1.1973	19.73%
302	Fuel Oil #4	0.1652	1.2636	26.36%
303	Fuel Oil #6	0.2930	1.2771	27.71%
	FUEL	0.2010	1.2316	23.16%
401	Electricity #1, 2,500 KWH	0.0069	1.0993	9.93%
402	Electricity #2, 15,000 KWH	0.1401	1.0998	9.98%
403	Electricity #3, 82,000 KWH	0.0000	1.0857	8.57%
404	Gas #1, 12,000 therms	0.0042	1.0363	3.63%
405	Gas #2, 65,000 therms	0.0305	0.9536	-4.64%
406	Gas #3, 214,000 therms	0.0020	0.9460	-5.40%
407	Steam #1, 1.2m lbs	0.0001	1.1427	14.27%
408	Steam #2, 2.6m lbs	0.0001	1.0685	6.85%
409	Telephone	0.0110	1.0128	1.28%
410	Water & Sewer	0.8051	1.1290	12.90%
	UTILITIES	0.1031	1.1173	11.73%
	-	-	-	-
501	Repainting	0.3483	1.0302	3.02%
502	Plumbing, Faucet	0.1387	1.0340	3.40%
503	Plumbing, Stoppage	0.1251	1.0306	3.06%
504	Elevator #1, 6 fl., 1 e.	0.0607	1.0282	2.82%
505	Elevator #2, 13 fl., 2 e.	0.0447	1.0256	2.56%
506	Elevator #3, 19 fl., 3 e.	0.0160	1.0271	2.71%
507	Burner Repair	0.0459	0.9856	-1.44%
508	Boiler Repair, Tube	0.0624	1.0201	2.01%
509	Boiler Repair, Weld	0.0498	0.9875	-1.25%
510	Refrigerator Repair	0.0118	1.0234	2.34%
511	Range Repair	0.0111	1.0324	3.24%
512	Roof Repair	0.0751	1.0408	4.08%
513	Air Conditioner Repair	0.0055	0.9885	-1.15%
514	Floor Maint. #1, Studio	0.0003	1.0214	2.14%
515	Floor Maint. #2, 1 Br.	0.0004	1.0130	1.30%
516	Floor Maint. #3, 2 Br.	0.0041	1.0000	0.00%

	CONTRACTOR SERVICES	0.1190	1.0260	2.60%
601	Management Fees	0.7341	1.0340	3.40%
602	Accountant Fees	0.1431	1.0069	0.69%
603	Attorney Fees	0.0891	1.0220	2.20%
604	Newspaper Ads	0.0034	1.0459	4.59%
605	Agency Fees	0.0047	1.0000	0.00%
606	Lease Forms	0.0088	1.0359	3.59%
607	Bill Envelopes	0.0092	1.0000	0.00%
608	Ledger Paper	0.0077	1.0438	4.38%
	ADMINISTRATIVE COSTS	0.0721	1.0287	2.87%
701	INSURANCE COSTS	0.0771	0.9964	-0.36%
801	Light Bulbs	0.0347	1.0191	1.91%
802	Light Switch	0.0427	1.0217	2.17%
803	Wet Mop	0.0414	1.0235	2.35%
804	Floor Wax	0.0499	1.0122	1.22%
805	Paint	0.2215	1.0843	8.43%
806	Pushbroom	0.0323	1.0032	0.32%
807	Detergent	0.0396	0.9889	-1.11%
808	Bucket	0.0406	1.0174	1.74%
809	Washers	0.0925	1.0366	3.66%
811	Pine Disinfectant	0.0551	1.0516	5.16%
812	Window/Glass Cleaner	0.0514	1.0333	3.33%
813	Switch Plate	0.0482	1.0253	2.53%
814	Duplex Receptacle	0.0349	1.0088	0.88%
815	Toilet Seat	0.0934	1.0197	1.97%
816	Deck Faucet	0.1220	1.0217	2.17%
	PARTS AND SUPPLIES	0.0142	1.0362	3.62%
901	Refrigerator #1	0.1042	1.0052	0.52%
902	Refrigerator #2	0.4840	1.0053	0.53%
903	Air Conditioner #1	0.0146	1.0113	1.13%
904	Air Conditioner #2	0.0183	1.0118	1.18%
905	Floor Runner	0.0993	0.9862	-1.38%
906	Dishwasher	0.0241	1.0156	1.56%
907	Range #1	0.0495	1.0133	1.33%
908	Range #2	0.2060	1.0132	1.32%
	REPLACEMENT COSTS	0.0060	1.0059	0.59%
	ALL ITEMS	1.0000	1.0772	7.72%

## Expenditure Weights, Price Relatives and Percent Change, Gas-Heated Buildings, 2011

Spec #	Apartments Item Description	Expenditure Weights	Price Relative	% Change
101	TAXES, FEES, & PERMITS	0.2422	1.0351	3.51%
201	Payroll, Bronx, All (Union)	0.0017	1.0000	0.00%
202	Payroll, Other, Union, Supts.	0.1248	1.0197	1.97%
203	Payroll, Other, Union, Other	0.2959	1.0193	1.93%
204	Payroll, Other, Non-Union, All	0.3564	1.0305	3.05%
205	Social Security Insurance	0.0466	1.0210	2.10%
206	Unemployment Insurance	0.0063	1.1772	17.72%
207	Private Health & Welfare	0.1683	1.0447	4.47%
	LABOR COSTS	0.1191	1.0287	2.87%
301	Fuel Oil #2	0.9933	1.1973	19.73%
302	Fuel Oil #4	0.0067	1.2636	26.36%
303	Fuel Oil #6	0.0000	1.2771	27.71%
	FUEL	0.0125	1.1977	19.77%
401	Electricity #1, 2,500 KWH	0.0140	1.0993	9.93%
402	Electricity #2, 15,000 KWH	0.0476	1.0998	9.98%
403	Electricity #3, 82,000 KWH	0.0000	1.0857	8.57%
404	Gas #1, 12,000 therms	0.0030	1.0363	3.63%
405	Gas #2, 65,000 therms	0.1255	0.9536	-4.64%
406	Gas #3, 214,000 therms	0.4498	0.9460	-5.40%
407	Steam #1, 1.2m lbs	0.0013	1.1427	14.27%
408	Steam #2, 2.6m lbs	0.0004	1.0685	6.85%
409	Telephone	0.0056	1.0128	1.28%
410	Water & Sewer	0.3530	1.1290	12.90%
	UTILITIES	0.2617	1.0219	2.19%
		-		
501	Repainting	0.5109	1.0302	3.02%
502	Plumbing, Faucet	0.1406	1.0340	3.40%
503	Plumbing, Stoppage	0.1268	1.0306	3.06%
504	Elevator #1, 6 fl., 1 e.	0.0227	1.0282	2.82%
505	Elevator #2, 13 fl., 2 e.	0.0052	1.0256	2.56%
506	Elevator #3, 19 fl., 3 e.	0.0417	1.0271	2.71%
507	Burner Repair	0.0204	0.9856	-1.44%
508	Boiler Repair, Tube	0.0277	1.0201	2.01%
509	Boiler Repair, Weld	0.0222	0.9875	-1.25%
510	Refrigerator Repair	0.0115	1.0234	2.34%
511	Range Repair	0.0108	1.0324	3.24%
512	Roof Repair	0.0495	1.0408	4.08%
513	Air Conditioner Repair	0.0034	0.9885	-1.15%
514	Floor Maint. #1, Studio	0.0003	1.0214	2.14%
515	Floor Maint. #2, 1 Br.	0.0006	1.0130	1.30%
516	Floor Maint. #3, 2 Br.	0.0056	1.0000	0.00%

	CONTRACTOR SERVICES	0.1582	1.0286	2.86%
601	Management Fees	0.6960	1.0340	3.40%
602	Accountant Fees	0.0977	1.0069	0.69%
603	Attorney Fees	0.1734	1.0220	2.20%
604	Newspaper Ads	0.0065	1.0459	4.59%
605	Agency Fees	0.0090	1.0000	0.00%
606	Lease Forms	0.0059	1.0359	3.59%
607	Bill Envelopes	0.0062	1.0000	0.00%
608	Ledger Paper	0.0052	1.0438	4.38%
	ADMINISTRATIVE COSTS	0.0830	1.0289	2.89%
701	INSURANCE COSTS	0.0882	0.9964	-0.36%
801	Light Bulbs	0.0356	1.0191	1.91%
802	Light Switch	0.0437	1.0217	2.17%
803	Wet Mop	0.0300	1.0235	2.35%
804	Floor Wax	0.0363	1.0122	1.22%
805	Paint	0.2592	1.0843	8.43%
806	Pushbroom	0.0234	1.0032	0.32%
807	Detergent	0.0288	0.9889	-1.11%
808	Bucket	0.0295	1.0174	1.74%
809	Washers	0.1034	1.0366	3.66%
811	Pine Disinfectant	0.0564	1.0516	5.16%
812	Window/Glass Cleaner	0.0527	1.0333	3.33%
813	Switch Plate	0.0351	1.0253	2.53%
814	Duplex Receptacle	0.0253	1.0088	0.88%
815	Toilet Seat	0.1043	1.0197	1.97%
816	Deck Faucet	0.1364	1.0217	2.17%
	PARTS AND SUPPLIES	0.0226	1.0395	3.95%
901	Refrigerator #1	0.0772	1.0052	0.52%
902	Refrigerator #2	0.3843	1.0053	0.53%
903	Air Conditioner #1	0.0221	1.0113	1.13%
904	Air Conditioner #2	0.0276	1.0118	1.18%
905	Floor Runner	0.0461	0.9862	-1.38%
906	Dishwasher	0.1558	1.0156	1.56%
907	Range #1	0.0525	1.0133	1.33%
908	Range #2	0.2344	1.0132	1.32%
	REPLACEMENT COSTS	0.0124	1.0086	0.86%
	ALL ITEMS	1.0000	1.0277	2.77%

## LOCAL LAW 63/ INCOME & EXPENSE REVIEW

The sample size for the *Income and Expense (I&E) Study* includes over 15,900 properties containing over 709,000 units. This is the 19<sup>th</sup> year that staff has been able to obtain longitudinal data in addition to cross-sectional data. The RGB staff found the following average monthly (per unit) operating and maintenance (O&M) costs in 2010 Real Property Income and Expense (RPIE) statements for the year 2009:

**Table 2**

<b>2011 Income and Expense Study Average Monthly Operating and Maintenance Costs Per Unit</b>			
	<b>Pre '47</b>	<b>Post '46</b>	<b>All Stabilized</b>
<b>Total</b>	<b>\$751</b>	<b>\$842</b>	<b>\$781</b>

Source: *2011 Income and Expense Study*, from 2010 Real Property Income and Expense filings for 2009, NYC Department of Finance.

In 1992, the Board benefited from the results of audits conducted on a stratified sample of 46 rent stabilized buildings by the Department of Finance. Audited income and expense (I&E) figures were compared to statements filed by owners. On average the audits showed an 8% over reporting of expenses. The categories, which accounted for nearly all of the expense over reporting, were maintenance, administration, and "miscellaneous." The largest over-reporting was in miscellaneous expenses.

If we assume that an audit of this year's I&E data would yield similar findings to the 1992 audit, one would expect the average O&M cost for stabilized buildings to be \$717, rather than \$781. As a result, the following relationship between operating costs and residential rental income was suggested by the Local Law 63 data:

**Table 2(a)**

<b>2009 Operating Cost to Rent/Income Ratio Adjusted to 1992 Audit</b>					
	<b>O&amp;M Costs<sup>6</sup></b>	<b>Rent</b>	<b>O&amp;M to Rent Ratio</b>	<b>Income</b>	<b>O&amp;M to Income Ratio</b>
All stabilized	\$717	\$1,020	0.703	\$1,142	0.628

Source: *2011 Income and Expense Study*, from 2010 Real Property Income and Expense filings for 2009, NYC Department of Finance.

**On June 1, 2011 the staff of the Rent Guidelines Board released a memo to Board members with additional information concerning RPIE median rent, income and cost information by Community District. An excerpt of that memo follows:**

This memo is in response to the following data inquiry by Brian Cheigh:

*Using Real Property Income and Expense (RPIE) data, please provide median rent, income and cost information for 2009 by Community District.*

The table below breaks down average and mean expenses by community district, per unit per month, for CD's that contain a sufficient number of buildings. It is derived from the data used for the 2011 Income and Expense Study, which utilizes data from the 2009 RPIE filings

<sup>6</sup> Overall O&M expenses were adjusted according to the findings of an income and expenses audit conducted by the Department of Finance in 1992. The unadjusted **O&M to Rent** ratio would be 0.765. The unadjusted **O&M to Income** ratio would be 0.683.

collected by the NYC Department of Finance. It excludes five community districts that contain too few rent stabilized buildings to do an analysis.

Manhattan								
District	Neighborhood	# of Bldgs	Average Rent	Median Rent	Average Income	Median Income	Average Cost	Median Cost
2	Greenwich Village	572	\$1,483	\$1,453	\$1,855	\$1,744	\$1,110	\$1,021
3	Lower East Side/Chinatown	891	\$1,156	\$1,129	\$1,447	\$1,336	\$973	\$881
4	Chelsea/Clinton	544	\$1,308	\$1,276	\$1,592	\$1,427	\$980	\$903
5	Midtown	103	\$1,735	\$1,616	\$2,433	\$2,336	\$1,560	\$1,447
6	Stuyvesant Town/Turtle Bay	435	\$1,562	\$1,475	\$1,878	\$1,721	\$1,162	\$1,037
7	Upper West Side	735	\$1,532	\$1,443	\$1,865	\$1,676	\$1,192	\$1,064
8	Upper East Side	1150	\$1,479	\$1,380	\$1,760	\$1,551	\$1,099	\$947
9	Morningside Hts./Hamilton Hts.	422	\$913	\$881	\$1,035	\$926	\$812	\$719
10	Central Harlem	442	\$784	\$733	\$890	\$819	\$695	\$627
11	East Harlem	251	\$908	\$833	\$1,081	\$946	\$790	\$721
12	Washington Hts./Inwood	1103	\$853	\$832	\$990	\$918	\$747	\$688

Bronx								
District	Neighborhood	# of Bldgs	Average Rent	Median Rent	Average Income	Median Income	Average Cost	Median Cost
1	Mott Haven/Port Morris	150	\$701	\$708	\$813	\$764	\$656	\$596
2	Hunts Point/Longwood*	145	\$664	\$653	\$784	\$753	\$628	\$613
3	Morrisania/Melrose/Claremont	207	\$664	\$648	\$740	\$709	\$643	\$616
4	Highbridge/S. Concourse	557	\$748	\$749	\$829	\$827	\$623	\$588
5	University Heights/Fordham	546	\$742	\$746	\$825	\$809	\$632	\$603
6	E. Tremont/Belmont	260	\$700	\$710	\$805	\$798	\$635	\$629
7	Kingsbridge Hts./Mosholu/Norwood	709	\$792	\$795	\$857	\$844	\$628	\$602
8	Riverdale/Kingsbridge	192	\$869	\$851	\$931	\$898	\$665	\$633
9	Soundview/Parkchester	205	\$746	\$768	\$817	\$810	\$611	\$585
10	Throgs Neck/Co-op City	101	\$763	\$779	\$821	\$831	\$607	\$588
11	Pelham Parkway	175	\$813	\$820	\$859	\$865	\$620	\$589



Brooklyn								
District	Neighborhood	# of Bldgs	Average Rent	Median Rent	Average Income	Median Income	Average Cost	Median Cost
1	Williamsburg/Greenpoint	182	\$791	\$772	\$886	\$849	\$658	\$637
2	Brooklyn Hts./Fort Greene	152	\$1,189	\$1,168	\$1,253	\$1,195	\$830	\$767
3	Bedford Stuyvesant	127	\$712	\$691	\$772	\$754	\$625	\$590
4	Bushwick	52	\$744	\$729	\$820	\$805	\$616	\$568
5	East New York/Starett City	103	\$678	\$664	\$750	\$757	\$635	\$599
6	Park Slope/Carroll Gardens	109	\$1,161	\$1,114	\$1,220	\$1,167	\$812	\$769
7	Sunset Park	130	\$800	\$790	\$916	\$863	\$673	\$644
8	North Crown Hts./Prospect Hts.	303	\$830	\$800	\$858	\$818	\$635	\$603
9	South Crown Hts.	359	\$802	\$800	\$845	\$830	\$615	\$586
10	Bay Ridge	241	\$862	\$844	\$925	\$896	\$637	\$597
11	Bensonhurst	298	\$755	\$749	\$811	\$803	\$589	\$549
12	Borough Park	291	\$789	\$792	\$842	\$836	\$590	\$544
13	Coney Island	104	\$769	\$806	\$907	\$893	\$578	\$568
14	Flatbush	603	\$835	\$843	\$870	\$870	\$616	\$584
15	Sheepshead Bay/Gravesend	181	\$854	\$865	\$923	\$914	\$638	\$597
16	Brownsville/Ocean Hill	82	\$715	\$696	\$771	\$733	\$556	\$525
17	East Flatbush	301	\$769	\$778	\$800	\$812	\$584	\$561
18	Flatlands/Canarsie	48	\$890	\$835	\$953	\$868	\$636	\$598

Queens								
District	Neighborhood	# of Bldgs	Average Rent	Median Rent	Average Income	Median Income	Average Cost	Median Cost
1	Astoria	532	\$903	\$922	\$935	\$939	\$655	\$628
2	Sunnyside/Woodside	257	\$914	\$929	\$949	\$949	\$643	\$611
3	Jackson Hts.	187	\$922	\$922	\$1,000	\$978	\$702	\$639
4	Elmhurst/Corona	159	\$937	\$967	\$988	\$1,007	\$663	\$644
5	Middle Village/Ridgewood	66	\$762	\$771	\$830	\$811	\$614	\$571
6	Forest Hills/Rego Park	132	\$1,130	\$1,140	\$1,206	\$1,207	\$816	\$802
7	Flushing/Whitestone	195	\$958	\$988	\$1,003	\$1,012	\$675	\$655
8	Hillcrest/Fresh Meadows	92	\$996	\$958	\$1,057	\$1,007	\$706	\$678
9	Kew Gardens/Woodhaven	114	\$891	\$897	\$922	\$912	\$661	\$625
11	Bayside/Little Neck	47	\$1,070	\$1,038	\$1,108	\$1,077	\$741	\$690
12	Jamaica	96	\$875	\$884	\$924	\$918	\$624	\$614
14	Rockaways	45	\$837	\$815	\$899	\$887	\$637	\$634

Staten Island								
District	Neighborhood	# of Bldgs	Average Rent	Median Rent	Average Income	Median Income	Average Cost	Median Cost
1	North Shore	65	\$822	\$825	\$885	\$918	\$657	\$630

Source: NYC Department of Finance, 2009 RPIE Filings

Note: Community Districts containing fewer than 35 rent stabilized buildings are excluded from this analysis.

**On June 1, 2011 the staff of the Rent Guidelines Board released a memo to Board members with additional information concerning mean and median rent levels. An excerpt of that memo follows:**

This memo is in response to the following data inquiry by Brian Cheigh:

*Using Real Property Income and Expense (RPIE) data, please provide median rent, income and cost information for 2009 by building size.*

The table below breaks down average and median rent, income and costs by building size in each community district, per unit per month. It is derived from the data used for the *2011 Income and Expense Study*, which utilizes data from the 2009 RPIE filings collected by the NYC Department of Finance. It excludes a number of categories of building sizes in community districts that contain too few rent stabilized buildings to do an analysis. (For average and median rent, income and costs broken down by borough and building size, see Appendices 3 and 4 in the *2011 Income and Expense Study*.)

Manhattan									
CP DIST.	Neighborhood	Bldg Size	# of Bldgs	Avg Rent	Median Rent	Avg Income	Median Income	Avg Cost	Median Cost
2	Greenwich Village	11-19 UNITS	178	\$1,406	\$1,424	\$1,903	\$1,815	\$1,193	\$1,125
		20-99 UNITS	376	\$1,475	\$1,453	\$1,790	\$1,680	\$1,048	\$954
		100+ UNITS	-	-	-	-	-	-	-
3	Lower East Side/Chinatown	11-19 UNITS	371	\$1,092	\$1,046	\$1,433	\$1,338	\$1,017	\$919
		20-99 UNITS	511	\$1,191	\$1,173	\$1,447	\$1,321	\$936	\$860
		100+ UNITS	-	-	-	-	-	-	-
4	Chelsea/Clinton	11-19 UNITS	232	\$1,265	\$1,250	\$1,692	\$1,543	\$1,056	\$985
		20-99 UNITS	282	\$1,315	\$1,273	\$1,465	\$1,338	\$902	\$834
		100+ UNITS	-	-	-	-	-	-	-
5	Midtown	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	46	\$1,766	\$1,711	\$2,515	\$2,445	\$1,621	\$1,496
		100+ UNITS	-	-	-	-	-	-	-
6	Stuyvesant Town/Turtle Bay	11-19 UNITS	133	\$1,356	\$1,340	\$1,879	\$1,728	\$1,151	\$1,010
		20-99 UNITS	222	\$1,508	\$1,471	\$1,694	\$1,626	\$1,023	\$943
		100+ UNITS	80	\$2,058	\$2,012	\$2,390	\$2,281	\$1,565	\$1,532
7	Upper West Side	11-19 UNITS	299	\$1,342	\$1,322	\$1,741	\$1,575	\$1,126	\$999
		20-99 UNITS	366	\$1,619	\$1,517	\$1,911	\$1,725	\$1,205	\$1,056
		100+ UNITS	70	\$1,880	\$1,729	\$2,159	\$2,026	\$1,403	\$1,375
8	Upper East Side	11-19 UNITS	450	\$1,383	\$1,330	\$1,796	\$1,637	\$1,154	\$1,029
		20-99 UNITS	600	\$1,442	\$1,382	\$1,610	\$1,460	\$973	\$867
		100+ UNITS	100	\$2,135	\$2,126	\$2,492	\$2,375	\$1,602	\$1,626
9	Morningside Hts./Hamilton Hts.	11-19 UNITS	77	\$872	\$807	\$1,038	\$852	\$854	\$784
		20-99 UNITS	340	\$916	\$890	\$1,029	\$939	\$801	\$713
		100+ UNITS	-	-	-	-	-	-	-
10	Central Harlem	11-19 UNITS	184	\$769	\$673	\$882	\$771	\$708	\$643
		20-99 UNITS	238	\$786	\$758	\$891	\$831	\$680	\$609
		100+ UNITS	-	-	-	-	-	-	-
11	East Harlem	11-19 UNITS	107	\$877	\$831	\$1,118	\$967	\$818	\$741
		20-99 UNITS	142	\$915	\$835	\$1,037	\$938	\$761	\$710
		100+ UNITS	-	-	-	-	-	-	-
12	Washington Hts./Inwood	11-19 UNITS	108	\$844	\$841	\$1,058	\$948	\$848	\$785
		20-99 UNITS	966	\$852	\$831	\$981	\$912	\$738	\$686
		100+ UNITS	-	-	-	-	-	-	-

Bronx									
CP DIST.	Neighborhood	Bldg Size	# of Bldgs	Avg Rent	Median Rent	Avg Income	Median Income	Avg Cost	Median Cost
1	Mott Haven/Port Morris	11-19 UNITS	56	\$697	\$668	\$841	\$732	\$704	\$648
		20-99 UNITS	90	\$700	\$711	\$798	\$773	\$633	\$579
		100+ UNITS	-	-	-	-	-	-	-
2	Hunts Point/Longwood	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	114	\$663	\$663	\$764	\$744	\$617	\$591
		100+ UNITS	-	-	-	-	-	-	-
3	Morrisania/Melrose/Claremont	11-19 UNITS	56	\$640	\$603	\$724	\$705	\$695	\$653
		20-99 UNITS	145	\$668	\$665	\$741	\$708	\$630	\$607
		100+ UNITS	-	-	-	-	-	-	-
4	Highbridge/S. Concourse	11-19 UNITS	47	\$773	\$786	\$860	\$841	\$738	\$715
		20-99 UNITS	467	\$744	\$745	\$824	\$823	\$613	\$581
		100+ UNITS	43	\$769	\$768	\$847	\$861	\$609	\$612
5	University Heights/Fordham	11-19 UNITS	39	\$715	\$723	\$866	\$828	\$766	\$751
		20-99 UNITS	491	\$742	\$744	\$821	\$807	\$622	\$594
		100+ UNITS	-	-	-	-	-	-	-
6	E. Tremont/Belmont	11-19 UNITS	61	\$691	\$679	\$810	\$811	\$660	\$641
		20-99 UNITS	199	\$702	\$718	\$804	\$796	\$628	\$620
		100+ UNITS	-	-	-	-	-	-	-
7	Kingsbridge Hts./Mosholu/Norwood	11-19 UNITS	46	\$838	\$765	\$895	\$861	\$695	\$673
		20-99 UNITS	652	\$788	\$795	\$854	\$841	\$623	\$597
		100+ UNITS	-	-	-	-	-	-	-
8	Riverdale/Kingsbridge	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	169	\$852	\$836	\$913	\$887	\$657	\$618
		100+ UNITS	-	-	-	-	-	-	-
9	Soundview/Parkchester	11-19 UNITS	42	\$746	\$764	\$783	\$782	\$648	\$585
		20-99 UNITS	148	\$736	\$762	\$818	\$807	\$598	\$580
		100+ UNITS	-	-	-	-	-	-	-
10	Throgs Neck/Co-op City	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	82	\$765	\$784	\$817	\$829	\$603	\$581
		100+ UNITS	-	-	-	-	-	-	-
11	Pelham Parkway	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	145	\$821	\$832	\$868	\$876	\$620	\$589
		100+ UNITS	-	-	-	-	-	-	-
12	Williamsbridge/Baychester	11-19 UNITS	41	\$718	\$703	\$758	\$737	\$653	\$674
		20-99 UNITS	132	\$796	\$788	\$848	\$836	\$597	\$585
		100+ UNITS	-	-	-	-	-	-	-

Brooklyn									
CP DIST.	Neighborhood	Bldg Size	# of Bldgs	Avg Rent	Median Rent	Avg Income	Median Income	Avg Cost	Median Cost
1	Williamsburg/ Greenpoint	11-19 UNITS	63	\$824	\$845	\$944	\$899	\$687	\$623
		20-99 UNITS	118	\$771	\$720	\$853	\$843	\$642	\$639
		100+ UNITS	-	-	-	-	-	-	-
2	Brooklyn Hts./Fort Greene	11-19 UNITS	65	\$1,171	\$1,194	\$1,244	\$1,251	\$868	\$781
		20-99 UNITS	80	\$1,190	\$1,128	\$1,246	\$1,163	\$798	\$755
		100+ UNITS	-	-	-	-	-	-	-
3	Bedford Stuyvesant	11-19 UNITS	68	\$732	\$712	\$780	\$755	\$623	\$591
		20-99 UNITS	53	\$676	\$678	\$749	\$742	\$619	\$574
		100+ UNITS	-	-	-	-	-	-	-
5	East New York/Starett City	11-19 UNITS	45	\$701	\$667	\$752	\$703	\$693	\$644
		20-99 UNITS	56	\$664	\$635	\$746	\$779	\$579	\$567
		100+ UNITS	-	-	-	-	-	-	-
6	Park Slope/Carroll Gardens	11-19 UNITS	70	\$1,141	\$1,077	\$1,219	\$1,166	\$822	\$741
		20-99 UNITS	37	\$1,194	\$1,143	\$1,219	\$1,161	\$791	\$785
		100+ UNITS	-	-	-	-	-	-	-
7	Sunset Park	11-19 UNITS	67	\$840	\$792	\$973	\$929	\$688	\$633
		20-99 UNITS	61	\$749	\$706	\$848	\$821	\$656	\$646
		100+ UNITS	-	-	-	-	-	-	-
8	North Crown Hts./ Prospect Hts.	11-19 UNITS	133	\$805	\$783	\$839	\$812	\$654	\$634
		20-99 UNITS	166	\$848	\$812	\$871	\$826	\$619	\$591
		100+ UNITS	-	-	-	-	-	-	-
9	South Crown Hts.	11-19 UNITS	62	\$819	\$825	\$881	\$844	\$682	\$612
		20-99 UNITS	276	\$793	\$792	\$831	\$826	\$604	\$584
		100+ UNITS	-	-	-	-	-	-	-
10	Bay Ridge	11-19 UNITS	49	\$791	\$751	\$918	\$878	\$632	\$610
		20-99 UNITS	184	\$870	\$850	\$918	\$890	\$634	\$590
		100+ UNITS	-	-	-	-	-	-	-
11	Bensonhurst	11-19 UNITS	84	\$707	\$707	\$750	\$718	\$609	\$563
		20-99 UNITS	203	\$766	\$767	\$823	\$823	\$574	\$538
		100+ UNITS	-	-	-	-	-	-	-
12	Borough Park	11-19 UNITS	58	\$753	\$722	\$792	\$754	\$622	\$541
		20-99 UNITS	225	\$792	\$797	\$848	\$849	\$578	\$542
		100+ UNITS	-	-	-	-	-	-	-
13	Coney Island	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	77	\$755	\$805	\$890	\$875	\$571	\$553
		100+ UNITS	-	-	-	-	-	-	-
14	Flatbush	11-19 UNITS	90	\$809	\$830	\$871	\$898	\$645	\$594
		20-99 UNITS	489	\$838	\$842	\$867	\$867	\$608	\$581
		100+ UNITS	-	-	-	-	-	-	-

(Brooklyn continued on next page)

(Brooklyn continued from previous page)

<b>CP DIST.</b>	<b>Neighborhood</b>	<b>Bldg Size</b>	<b># of Bldgs</b>	<b>Avg Rent</b>	<b>Median Rent</b>	<b>Avg Income</b>	<b>Median Income</b>	<b>Avg Cost</b>	<b>Median Cost</b>
<b>15</b>	Sheepshead Bay/Gravesend	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	135	\$840	\$846	\$907	\$905	\$629	\$594
		100+ UNITS	-	-	-	-	-	-	-
<b>16</b>	Brownsville/Ocean Hill	11-19 UNITS	41	\$761	\$704	\$805	\$740	\$586	\$537
		20-99 UNITS	40	\$676	\$683	\$730	\$723	\$523	\$518
		100+ UNITS	-	-	-	-	-	-	-
<b>17</b>	East Flatbush	11-19 UNITS	66	\$735	\$740	\$761	\$762	\$582	\$564
		20-99 UNITS	216	\$775	\$780	\$809	\$817	\$580	\$561
		100+ UNITS	-	-	-	-	-	-	-

Queens									
CP DIST.	Neighborhood	Bldg Size	# of Bldgs	Avg Rent	Median Rent	Avg Income	Median Income	Avg Cost	Median Cost
1	Astoria	11-19 UNITS	153	\$848	\$850	\$886	\$874	\$631	\$577
		20-99 UNITS	368	\$923	\$958	\$954	\$970	\$665	\$645
		100+ UNITS	-	-	-	-	-	-	-
2	Sunnyside/ Woodside	11-19 UNITS	72	\$854	\$859	\$888	\$864	\$614	\$579
		20-99 UNITS	170	\$939	\$948	\$975	\$992	\$653	\$624
		100+ UNITS	-	-	-	-	-	-	-
3	Jackson Hts.	11-19 UNITS	40	\$869	\$878	\$956	\$964	\$725	\$664
		20-99 UNITS	131	\$929	\$928	\$1,002	\$975	\$698	\$635
		100+ UNITS	-	-	-	-	-	-	-
4	Elmhurst/Corona	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	83	\$933	\$960	\$967	\$970	\$617	\$584
		100+ UNITS	45	\$989	\$991	\$1,049	\$1,046	\$780	\$832
5	Middle Village/ Ridgewood	11-19 UNITS	35	\$735	\$707	\$815	\$767	\$644	\$538
		20-99 UNITS	-	-	-	-	-	-	-
		100+ UNITS	-	-	-	-	-	-	-
6	Forest Hills/Rego Park	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	84	\$1,122	\$1,153	\$1,190	\$1,205	\$800	\$789
		100+ UNITS	45	\$1,154	\$1,107	\$1,244	\$1,222	\$840	\$814
7	Flushing/Whitestone	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	121	\$932	\$938	\$971	\$969	\$656	\$629
		100+ UNITS	46	\$1,076	\$1,060	\$1,160	\$1,139	\$763	\$781
8	Hillcrest/Fresh Meadows	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	46	\$939	\$943	\$979	\$970	\$659	\$613
		100+ UNITS	42	\$1,059	\$998	\$1,148	\$1,071	\$760	\$706
9	Kew Gardens/ Woodhaven	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	75	\$911	\$914	\$941	\$921	\$659	\$637
		100+ UNITS	-	-	-	-	-	-	-
12	Jamaica	11-19 UNITS	-	-	-	-	-	-	-
		20-99 UNITS	67	\$888	\$890	\$936	\$924	\$621	\$620
		100+ UNITS	-	-	-	-	-	-	-

Source: NYC Department of Finance, 2009 RPIE Filings

Note: Building size categories containing fewer than 35 rent stabilized buildings are excluded from this analysis.

## **FORECASTS OF OPERATING AND MAINTENANCE PRICE INCREASES FOR 2011-12**

In order to decide upon the allowable rent increases for two-year leases, the RGB considers price changes for operating costs likely to occur over the next year. In making its forecasts the Board relies on expert assessments of likely price trends for the individual components, the history of changes in prices for the individual components and general economic trends. The Board's projections for 2011-12 are set forth in Table 3, which shows the Board's forecasts for price increases for the various categories of operating and maintenance costs.

**Table 3**

<b>Year-to-Year Percentage Changes in Components of the Price Index of Operating Costs: Actual 2010-11 and Projected 2011-12</b>		
	<b>Price Index 2010-11</b>	<b>Projected Price Index 2011-12</b>
Taxes	3.5%	10.0%
Labor Costs	2.7%	3.7%
Fuel	23.1%	19.6%
Utilities	7.7%	6.0%
Contractor Services	2.7%	2.6%
Administrative Costs	2.9%	3.7%
Insurance Costs	-0.4%	-1.8%
Parts & Supplies	3.7%	1.9%
Replacement Costs	0.6%	1.7%
<b>Total (Weighted)</b>	<b>6.1%</b>	<b>7.4%</b>

Source: 2011 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City, which includes the 2012 PIOC Projection.

Overall, the PIOC is expected to grow by 7.4% from 2011 to 2012. Costs are predicted to rise in each component except Insurance, where costs are anticipated to decrease 1.8%. Fuel, the most volatile PIOC component, is expected to increase the greatest proportion, by 19.6%. Taxes, the component that carries the most weight in the Index, is projected to increase 10.0%. The Utilities component is anticipated to increase 6.0% while both the Labor and Administrative Costs components by 3.7%. More moderate increases are projected in Contractor Services (2.6%), Parts and Supplies (1.9%) and Replacement Costs (1.7%). Table 3 shows predicted changes in PIOC components for 2012. The core PIOC is projected to rise 5.7%, less than the overall PIOC.

### **COMMENSURATE RENT ADJUSTMENT**

Throughout its history, the Rent Guidelines Board has used a formula, known as the commensurate rent adjustment, to help determine annual rent guidelines for rent stabilized apartments. In essence, the “commensurate” combines various data concerning operating costs, revenues, and inflation into a single measure indicating how much rents would have to change for net operating income (NOI) in stabilized buildings to remain constant. The different types of “commensurate” adjustments described below are primarily meant to provide a foundation for discussion concerning prospective guidelines.

In its simplest form, the commensurate rent adjustment is the amount of rent change needed to maintain landlords’ current dollar NOI at a constant level. In other words, the formula provides a set of one- and two-year renewal rent increases or guidelines that will compensate owners for the change in prices measured by the PIOC and keep net operating income “whole.”



The first commensurate method is called the “Net Revenue” approach. While this formula takes into consideration the types of leases actually signed by tenants, it does not adjust landlords’ NOI for inflation. The “Net Revenue” formula is presented in two ways: First, adjusting for the mix of lease terms; and second, adding an assumption for stabilized apartment turnover and the impact of revenue from vacancy increases. Under the “Net Revenue” formula, a guideline that would preserve NOI in the face of this year’s 6.1% increase in the PIOC is 4.75% for a one-year lease and 9.5% for a two-year lease. Using this formula and adding assumptions for the impact of vacancy increases on revenues when apartments experience turnover result in guidelines of 3.25% for one-year leases and 6.5% for two-year leases.

The second commensurate method considers the mix of lease terms while adjusting NOI upward to reflect general inflation, keeping both operating and maintenance (O&M) costs and NOI constant. This is commonly called the “CPI-Adjusted NOI” formula. A guideline that would preserve NOI in the face of the 1.7% increase in the Consumer Price Index (see Endnote 1) and the 6.1% increase in the PIOC is 6.0% for a one-year lease and 10.0% for a two-year lease. Guidelines using this formula and adding the estimated impact of vacancy increases are 4.0% for one-year leases and 7.5% for two-year leases.<sup>7</sup>

The “traditional” commensurate adjustment is the formula that has been in use since the inception of the Rent Guidelines Board. The “traditional” commensurate yields 4.2% for a one-year lease and 6.9% for a two-year lease. This reflects the increase in operating costs of 6.1% found in the 2011 PIOC and the projection of a 7.4% increase next year.<sup>8</sup>

As a means of compensating for cost changes, this “traditional” commensurate rent adjustment has two major flaws. First, although the formula is supposed to keep landlords’ current dollar income constant, the formula does not consider the mix of one- and two-year lease renewals. Since only about three-fifths of leases are renewed in any given year, with a preponderance of leases having a two-year duration, the formula does not necessarily accurately estimate the amount of income needed to compensate landlords for O&M cost changes.

A second flaw of the “traditional” commensurate formula is that it does not consider the erosion of landlords’ income by inflation. By maintaining current dollar NOI at a constant level, adherence to the formula may cause profitability to decline over time. However, such degradation is not an inevitable consequence of using the “traditional” commensurate formula.<sup>9</sup>

All of these methods have their limitations. The “traditional” commensurate formula is artificial and does not consider the impact of lease terms or inflation on landlords’ income. The “Net Revenue” formula does not attempt to adjust NOI based on changes in interest rates or deflation of landlord profits. The “CPI-Adjusted NOI” formula inflates the debt service portion of NOI, even though interest rates have been generally falling, rather than rising, over recent years. Including a consideration of the amount of income owners receive on vacancy assumes that turnover rates are constant across the City.

Finally, it is important to note that only the “traditional” commensurate formula uses the PIOC projection and that this projection is not used in conjunction with or as part of the “Net Revenue” and

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<sup>7</sup> The following assumptions were used in the computation of the commensurates: (1) the required change in landlord revenue is 68.3% of the 2011 PIOC increase of 6.1%, or 4.2%. The 68.3% figure is the most recent ratio of average operating costs to average income in stabilized buildings; (2) for the “CPI-Adjusted NOI” commensurate, the increase in revenue due to the impact of inflation on NOI is 31.7% times the latest 12-month increase in the CPI ending February 2011 (1.7%) or 0.53%; (3) these lease terms are only illustrative—other combinations of one- and two-year guidelines could produce the adjustment in revenue; (4) assumptions regarding lease renewals and turnover were derived from the 2008 Housing and Vacancy Survey; (5) for the commensurate formulae, including a vacancy assumption, the 10.45% median increase in vacancy leases found in the rent stabilized apartments that reported a vacancy lease in the 2009 apartment registration file from the Division of Housing and Community Renewal was used; and (6) the collectability of these commensurate adjustments are assumed.

<sup>8</sup> Calculating the “traditional” commensurate rent adjustment requires an assumption about next year’s PIOC. In this case, the 7.4% PIOC projection for 2012 is used.

<sup>9</sup> Whether profits will actually decline depends on the level of inflation, the composition of NOI (i.e., how much is debt service and how much is profit), and changes in tax law and interest rates.

“CPI- Adjusted NOI” formulas. As stated previously, all three formulas attempt to compensate owners for the adjustment in their operating and maintenance costs measured each year in the PIOC. The “Net Revenue” and the “CPI-Adjusted NOI” formulas attempt to compensate owners for the adjustment in O&M costs by using only the known PIOC change in costs (6.1%). The traditional method differs from the other formulas in that it uses both the PIOC’s actual change in costs as well as the projected change in costs (7.4%). If the change in projected costs, which may not be an accurate estimate of owner’s costs, is added to the “Net Revenue” and “CPI-Adjusted NOI” formulas, the resulting guidelines will likely over- or under-compensate for the change in costs.

Each of these formulae may be best thought of as a starting point for deliberations. The other Rent Guidelines Board annual research reports (e.g., the *Mortgage Survey Report* and the *Income and Expense Study*) and testimony to the Board can be used to modify the various estimates depending on these other considerations.

### Consideration of Other Factors

Before determining the guideline, the Board considered other factors affecting the rent stabilized housing stock and the economics of rental housing.

### EFFECTIVE RATES OF INTEREST

The Board took into account current mortgage interest rates and the availability of financing and refinancing. It reviewed the staff’s *2011 Mortgage Survey Report* of lending institutions. Table 4 gives the reported rate and points for the past nine years as reported by the mortgage survey.

**Table 4**

<b>2011 Mortgage Survey<sup>10</sup></b>									
<b>Average Interest Rates and Points for</b>									
<b>New and Refinanced Permanent Mortgage Loans 2002-2011</b>									
New Financing of Permanent Mortgage Loans, Interest Rate and Points									
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Avg. Rates	6.2%	5.8%	5.5%	6.3%	6.3%	5.9%	6.5%	6.3%	5.8%
Avg. Points	0.81	0.67	0.56	0.44	0.61	0.47	0.62	0.79	0.61
Refinancing of Permanent Mortgage Loans, Interest Rate and Points									
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Avg. Rates	6.2%	5.7%	5.5%	6.3%	6.2%	5.8%	6.5%	6.3%	5.7%
Avg. Points	0.78	0.60	0.56	0.44	0.61	0.44	0.62	0.83	0.61

Source: 2003–2011 Annual *Mortgage Survey Reports*, RGB.

<sup>10</sup> Institutions were asked to provide information on their "typical" loan to rent stabilized buildings. Data for each variable in any particular year and from year to year may be based upon responses from a different number of institutions.

## CONDITION OF THE RENT STABILIZED HOUSING STOCK

The Board reviewed the number of buildings owned by the City following *in rem* actions and the number of units that are moving out of the rental market due to cooperative and condominium conversion.

**Table 5**

<b>City-Owned Properties in Central Management Occupied and Vacant Building Counts, Fiscal Years 2001-2008</b>								
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Occupied Bldgs.	1,203	919	610	373	235	175	133	115
Vacant Bldgs.	633	524	367	275	221	155	92	75

Source: NYC Department of Housing Preservation and Development, Office of Property Management. Data from 2009 and 2010 is not available and is thus not included in this table.

**Table 6**

<b>Number of Cooperative / Condominium Plans<sup>11</sup> Accepted for Filing, 2002-2010</b>									
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
New Construction	136	190	268	361	644	573	454	335	236
Conversion Non-Eviction	14	10	16	24	53	66	50	29	20
Conversion Eviction	15	0	15	18	13	16	18	13	4
Rehabilitation	20	18	18	6	0	8	4	1	0
<b>Total</b>	<b>185</b>	<b>218</b>	<b>317</b>	<b>409</b>	<b>710</b>	<b>663</b>	<b>526</b>	<b>378</b>	<b>260</b>
<b>Subtotal:</b>									
HPD Sponsored Plans	15	0	15	18	13	16	18	13	4

Source: New York State Attorney General's Office, Real Estate Financing.

<sup>11</sup> The figures given above for eviction and non-eviction plans include those that 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. HPD sponsored plans are a subset of the total plans.

## CONSUMER PRICE INDEX

The Board reviewed the Consumer Price Index. Table 7 shows the percentage change for the NY-Northeastern NJ Metropolitan area since 2004.

**Table 7**

<b>Percentage Changes in the Consumer Price Index for the New York City - Northeastern New Jersey Metropolitan Area, 2004-2011 (For "All Urban Consumers")</b>								
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Ist Quarter Avg. <sup>12</sup>	2.8%	4.1%	3.4%	2.9%	3.7%	1.3%	2.1%	2.0%
Yearly Avg.	3.5%	3.9%	3.8%	2.8%	3.9%	0.4%	1.7%	--

Source: U.S. Bureau of Labor Statistics. Some 1<sup>st</sup> Quarter numbers have been revised from prior years.

## CALCULATING OF THE CURRENT OPERATING AND MAINTENANCE EXPENSE TO RENT RATIO

Each year the Board estimates the current average proportion of the rent roll which owners spend on operating and maintenance costs. This figure is used to ensure that the rent increases granted by the Board compensate owners for the increases in operating and maintenance expenses. This is commonly referred to as the O&M to rent ratio.

Over the first two decades of rent stabilization, the change in the O&M to rent ratio contained in what was originally referred to as "Table 14" and most recently relabeled "Table 8" was updated each year to reflect the changes in operating costs as measured by the PIOC and changes in rents as measured by staff calculations derived from guideline increases. Over the years, some Board members and other housing experts have challenged the price index methodology and the soundness of the assumptions used in calculating the O&M to rent ratio in "Table 14". Several weaknesses in the table have been acknowledged for some time but it was kept in past explanatory statements to provide a historical perspective. However, "Table 14" presents a highly misleading picture of the changing relationship of operating costs to rents over time. Therefore the Board has removed this table from the Explanatory Statement and Findings.

With current longitudinal income and expense data, staff has constructed a more reliable index, using 1989 as a base year. Except for the most recent year and the coming year, this index measures changes in building income and operating expenses as reported in annual income and expense statements. The second to last year in the table will reflect actual PIOC increases and projected rent changes. The last year in the table - projecting into the future - will include staff projections for both expenses and rents. This index is labeled as Table 8.

While we believe this to be a more reliable index, it is not without limitations. First, as noted, for the past and coming year the index will continue to rely upon the price index and staff rent and cost projections. Second, while this table looks at the overall relationship between costs and income, it does not measure the specific impact of rent regulation on that relationship.

<sup>12</sup> 1<sup>st</sup> Quarter Average refers to the change of the CPI average of the first three months of one year to the average of the first three months of the following year.

Table 8

Revised Calculation of Operating and Maintenance Cost Ratio for Rent Stabilized Buildings from 1989 to 2012			
	Average Monthly O & M Per d.u. <sup>13</sup>	Average Monthly Income Per d.u.	Average O & M to Income Ratio
1989	\$370 (\$340)	\$567	.65 (.60)
1990	\$382 (\$351)	\$564	.68 (.62)
1991	\$382 (\$351)	\$559	.68 (.63)
1992	\$395 (\$363)	\$576	.69 (.63)
1993	\$409 (\$376)	\$601	.68 (.63)
1994	\$415 (\$381)	\$628	.66 (.61)
1995	\$425 (\$391)	\$657	.65 (.59)
1996	\$444 (\$408)	\$679	.65 (.60)
1997	\$458 (\$421)	\$724	.63 (.58)
1998	\$459 (\$422)	\$755	.61 (.56)
1999	\$464 (\$426)	\$778	.60 (.55)
2000	\$503 (\$462)	\$822	.61 (.56)
2001	\$531 (\$488)	\$868	.61 (.56)
2002	\$570 (\$524)	\$912	.63 (.57)
2003	\$618 (\$567)	\$912	.68 (.62)
2004	\$654 (\$601)	\$969	.67 (.62)
2005	\$679 (\$624)	\$961	.71 (.65)
2006	\$695 (\$638)	\$1,009	.69 (.63)
2007	\$730 (\$671)	\$1,052	.69 (.64)
2008	\$787 (\$723)	\$1,095	.72 (.66)
2009	\$819 (\$752)	\$1,154	.71 (.65)
2010 <sup>14</sup>	\$847 (\$778)	\$1,236	.69 (.63)
2011 <sup>15</sup>	\$898 (\$825)	\$1,295	.69 (.64)
2012 <sup>16</sup>	\$965 (\$886)	\$1,345	.72 (.66)

Source: RGB *Income and Expense Studies, 1989-2011, Price Index of Operating Costs 1992 - 2011, RGB Rent Index for 1992 - 2012* (see Table 8).

<sup>13</sup> Operating and expense data listed is based upon unaudited filings with the Department of Finance. Audits of 46 buildings conducted in 1992 suggest that expenses may be overstated by 8% on average. See *Rent Stabilized Housing in New York City, A Summary of Rent Guidelines Board Research 1992*, pages 40-44. Figures in parentheses are adjusted to reflect these findings.

<sup>14</sup> Estimated expense figure includes 2009 expense estimate updated by the staff PIOC for the period from 5/1/09 through 3/31/10 (3.4%). Income includes the income estimate for 2009 updated by staff estimate based upon renewal guidelines and choice of lease terms for a period from 4/1/09 through 3/31/10 (7.09% - i.e., the 10/1/08 to 9/30/09 rent projection (8.00%) times (.583), plus the 10/1/09 to 9/30/10 rent projection (5.82%) times (.417)).

<sup>15</sup> Estimated expense figure includes 2010 expense estimate updated by the staff PIOC for the period from 3/1/10 through 2/28/11 (6.1%). Income includes the income estimate for 2010 updated by staff estimate based upon renewal guidelines and choice of lease terms for a period from 3/1/10 through 2/28/11 (4.81% - i.e., the 10/1/09 to 9/30/10 rent projection (5.82%) times (.583), plus the 10/1/10 to 9/30/11 rent projection (3.40%) times (.417)).

<sup>16</sup> Estimated expense figure includes 2011 expense estimate updated by the staff PIOC projection for the period from 3/1/11 through 2/28/12 (7.4%). Income includes the income estimate for 2011 updated by staff estimate based upon renewal guidelines and choice of lease terms for a period from 3/1/11 through 2/28/12 (3.87% - i.e., the 10/1/10 to 9/30/11 rent projection (3.40%) times (.583), plus the 10/1/11 to 9/30/12 rent projection (4.53%) times (.417)).

## CHANGES IN HOUSING AFFORDABILITY

New York City's economy remained fairly stable during 2010 as compared with the preceding year, with most economic indicators only marginally negative, including barely rising unemployment rates and homeless levels, and some positive, such as increasing Gross City Product and employment levels. Negative indicators include Citywide unemployment rates increasing to 9.5% during 2010, a 0.2 percentage point increase from the prior year. In addition, cash assistance levels increased for only the third time since at least 1994, increasing by 1.0% between 2009 and 2010. The number of food stamp recipients is also on the rise, increasing for the eighth consecutive year, by 14.9% in 2010. Homelessness levels also rose marginally, increasing to an average of just over 36,000 persons a night, a 0.7% increase.

More positive indicators include the annual measure of Gross City Product, which increased in real terms by 1.6% in 2010, including quarterly increases seen in every quarter since the fourth of 2009. In addition, employment levels grew, increasing 0.4% in 2010, and inflation-adjusted wages increased 3.5% during the most recent 12-month period (the fourth quarter of 2009 through the third quarter of 2010). There was also a 3.0% decrease in evictions, despite the number of "calendered" non-payment filings in Housing Court rising 3.4%.

The most recent numbers suggest that the economy improved more rapidly in the latter part of last year, with homeless levels down in both the third and fourth quarters of 2010, GCP increasing almost 4% in the fourth quarter, and public assistance levels falling 0.7% in the fourth quarter. Food stamp levels, which have been rising rapidly in recent years, also grew at a slower pace as the year progressed, rising by 20% in the first quarter of 2010, but by less than 11% in the fourth quarter. Citywide unemployment rates were also down in every month from June of 2010 through February of 2011, as compared with same months of the prior year. Employment levels also rose in the second, third, and fourth quarters of 2010, including a high of 1.3% growth during the fourth quarter.

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### **On April 12, 2011 the staff of the Rent Guidelines Board released a memo to Board members with additional information concerning the *2011 Income and Affordability Study*. An excerpt of that memo follows:**

At the March 31, 2011 *Income and Affordability Study* presentation, five questions were asked of RGB staff for which answers were not immediately available. Detailed answers to all questions are provided herein.

*Question 1: Can you provide descriptions of the Family Assistance Program (FA) and the Safety Net Assistance Program (SNA)?*

Per the website of the NYS Office of Temporary and Disability Assistance:

#### ***Family Assistance (FA)***

Family Assistance (FA) provides cash assistance to needy families that include a minor child living with a parent (including families where both parents are in the household) or a caretaker relative. FA operates under federal Temporary Assistance for Needy Families (TANF) guidelines.

Under FA, eligible adults are limited to receiving benefits for a total of 60 months in their lifetime, including months of TANF-funded assistance granted in other states. Once this limit is reached, that adult and all members of his or her FA household are ineligible to receive any more FA benefits. The months need not be consecutive, but rather each individual month in which TANF-funded benefits are received is included in the lifetime count. The counting of this 60-month limit began in December 1996.

Parents and other adult relatives receiving FA, and who are determined to be able to work must comply with federal work requirements to receive FA benefits.

Parents and other caretakers are also responsible for cooperating with the local department of social services in locating any absent parent. Non-cooperation without good cause could result in lower benefits.

### ***Safety Net Assistance (SNA)***

If you are not eligible for other assistance programs, you may be eligible for SNA. SNA is for:

- ∞ Single adults
- ∞ Childless couples
- ∞ Children living apart from any adult relative
- ∞ Families of persons abusing drugs or alcohol
- ∞ Families of persons refusing drug/alcohol screening, assessment or treatment
- ∞ Persons who have exceeded the 60-month limit on assistance
- ∞ Aliens who are eligible for temporary assistance, but who are not eligible for federal reimbursement

Recipients of SNA, who are determined to be able to work must also comply with work requirements to receive SNA benefits.

Generally, you can receive cash SNA for a maximum of two years in a lifetime. After that, if you are eligible for SNA, it is provided in non-cash form, such as a two party check or a voucher. In addition, non-cash SNA is provided for:

- ∞ Families of persons abusing drugs or alcohol
- ∞ Families of persons refusing drug/alcohol screening, assessment or treatment

### *Question 2: Can you provide detailed information about public assistance application denials?*

Following is a table that details the reasons for public assistance application denials (for both the Family Assistance Program and the Safety Net Assistance Program), from calendar years 2006 through 2010. See the notes just below the table for definitions of each category.

#### **Reason for Denial of Public Assistance**

<b>Year</b>	<b>Client Request<sup>1</sup></b>	<b>Financial<sup>2</sup></b>	<b>Residence<sup>3</sup></b>	<b>Compliance Employment Related<sup>4</sup></b>	<b>Compliance Other<sup>5</sup></b>	<b>Other<sup>6</sup></b>	<b>Total</b>
2006	3,272	4,970	5,580	18,738	65,940	24,896	123,396
2007	3,427	5,755	1,236	36,361	69,097	15,434	131,310
2008	3,988	7,989	565	49,033	58,881	20,440	140,896
2009	5,642	10,184	289	53,886	55,243	23,138	148,382
2010	6,052	12,644	280	52,369	55,092	23,252	149,689
<i>Total 2006-2010</i>	<i>22,381</i>	<i>41,542</i>	<i>7,950</i>	<i>210,387</i>	<i>304,253</i>	<i>107,160</i>	<i>693,673</i>

1. Client Request: The client requests that the application be rescinded.
2. Financial: Includes denials for income and resource reasons, including situations where people have sources of income exceeding the standard of need for the case, or assets (bank accounts and other liquid assets, cars, certain lump sum payments and other non-household items of worth) over the Public Assistance thresholds. Resource denials are very small in relation to income denials.
3. Residence: Include anything related to where the applicant is, or is not, actually found to be living.
4. Compliance Employment Related: Failure to comply with the employment intake process
5. Compliance Other: "Other" compliance issues include things like failure to show for the application appointment or failure to provide documentation necessary to establish eligibility.

6. Other: Includes all cases where a standard denial code is not available and the case worker manually writes in the reason for the denial. These reasons might include inability to locate the person or cases where the person receives an emergency payment but does not qualify for FAP or SNA.

*Question 3: Can homelessness statistics be correlated to population?*

Following is a table that provides both population estimates and the average daily homeless shelter census, from 1990 through 2010. These figures do not include street homelessness. Also note that population estimates are provided by the U.S. Census Bureau and are based primarily on decennial censuses. As you get further removed from the Census year, the estimate becomes less reliable. Note the jump of almost 600,000 persons between 1999 and 2000, and the drop in population between 2009 and 2010.

<b>Year</b>	<b>Average Daily Shelter Census</b>	<b>Population Estimate</b>	<b>% of Population that is Homeless</b>
1990	20,131	7,322,155	0.27%
1991	22,498	7,304,481	0.31%
1992	23,494	7,304,895	0.32%
1993	23,748	7,329,079	0.32%
1994	23,431	7,341,300	0.32%
1995	23,950	7,349,560	0.33%
1996	24,554	7,360,622	0.33%
1997	22,145	7,382,901	0.30%
1998	21,277	7,404,140	0.29%
1999	22,575	7,428,162	0.30%
2000	23,712	8,015,348	0.30%
2001	27,799	8,063,137	0.34%
2002	34,576	8,092,749	0.43%
2003	38,310	8,126,718	0.47%
2004	37,319	8,169,940	0.46%
2005	33,687	8,213,839	0.41%
2006	32,430	8,250,567	0.39%
2007	34,109	8,310,212	0.41%
2008	33,554	8,346,794	0.40%
2009	35,915	8,391,881	0.43%
2010	36,175	8,175,133*	0.44%

\*All population estimates are as of July 1 of the year specified, with the exception of 2010, which is as of April 1, 2010.

*Question 4: Do you have eviction data for either public housing or rent stabilized housing?*

Neither the Civil Court of the City of New York nor the NYC Dept. of Investigations (the agency which oversees New York City Marshals) is able to provide this data.

*Question 5: How many homeless persons being relocated to permanent housing are being relocated to rent stabilized housing?*

The NYC Dept. of Homeless Services is not able to provide this data.



## BUILDINGS WITH DIFFERENT FUEL AND UTILITY ARRANGEMENTS

The Board was also informed of the circumstances of buildings with different fuel and utility arrangements including buildings that are master-metered for electricity and that are heated with gas versus oil (see Table 10). Under some of the Board's Orders in the past, separate adjustments have been established for buildings in certain of these categories where there were indications of drastically different changes in costs in comparison to the generally prevailing fuel and utility arrangements. This year the Board did **not** make a distinction between guidelines for buildings with different fuel and utility arrangements under Order 43.

Table 9

<b>Changes in Price Index of Operating Costs for Apartments in Buildings with Various Heating Arrangements, 2010-11, and Commensurate Rent Adjustment</b>		
<b>Index Type</b>	<b>2010-11 Price Index Change</b>	<b>One-Year Rent Adjustment Commensurate With O&amp;M to Income Ratio of .683</b>
All Dwelling Units	6.13%	4.19%
Pre 1947	6.59%	4.50%
Post 1946	5.23%	3.57%
Oil Used for Heating	7.72%	5.27%
Gas Used for Heating	2.77%	1.89%
Master Metered for Electricity	4.63%	3.16%

Note: The O&M to Income ratio is from the 2011 *Income and Expense Study*.

Source: RGB's 2011 *Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City*.

**On June 1, 2011 the staff of the Rent Guidelines Board released a memo to Board members with additional information concerning mean and median rent levels. An excerpt of that memo follows:**

This memo is in response to the request by Ms. Cruz for the median and mean rents of rent stabilized apartments citywide and by borough. This information reflects rents as of April 1, 2010 as filed by building owners on the annual apartment registration with DHCR, and is the most recent data available.

	<i>Average</i>	<i>Median</i>
Bronx	\$1,060	\$973
Brooklyn	\$1,142	\$1,013
Manhattan	\$1,755	\$1,226
Queens	\$1,242	\$1,145
S.I.	\$1,229	\$1,076
<b>Citywide</b>	<b>\$1,328</b>	<b>\$1,064</b>

Source: DHCR, 2010 Apartment Registration Filings

**ADJUSTMENTS FOR UNITS IN THE CATEGORY OF BUILDINGS COVERED BY ARTICLE 7-C OF THE MULTIPLE DWELLING LAW (LOFTS)**

Section 286 sub-division 7 of the Multiple Dwelling Law states that the Rent Guidelines Board "shall annually establish guidelines for rent adjustments for the category of buildings covered by this article." In addition, the law specifically requires that the Board, "consider the necessity of a separate category for such buildings, and a separately determined guideline for rent adjustments for those units in which heat is not required to be provided by the owner, and may establish such separate category and guideline."

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 used this year.

The increase in the Loft Index this year was 5.0%, 1.1 percentage points lower than the increase for apartments. This difference is explained by the fact that Attorney Fees (2.2%) have a much higher weight in the Loft index than in the Apartments. This moderate increase in Attorney Fees, which was less than the overall index for both Apartments and Lofts, placed downward pressure on the Loft Index.

This year's guidelines for lofts are: **3.75%** for a one-year lease and **7.25%** for a two-year lease.

**Table 10**

<b>Changes in the Price Index of Operating Costs for Lofts from 2010-2011</b>	
	<b>Loft O &amp; M Price Index Change</b>
<b>All Buildings</b>	<b>5.0%</b>

Source: 2011 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City.

**SPECIAL GUIDELINES FOR VACANCY DECONTROLLED UNITS ENTERING THE STABILIZED STOCK**

Pursuant to Section 26-513(b) of the New York City Administrative Code, as amended, the Rent Guidelines Board establishes a special guideline in order to aid the State Division of Housing and Community Renewal in determining fair market rents for housing accommodations that enter the stabilization system. This year, the Board set the guidelines at the greater of the following:

- (1) 30% above the Maximum Base Rent, or
- (2) The Fair Market Rent for existing housing as established by the United States Department of Housing and Urban Development (HUD) for the New York City Primary Metropolitan Statistical Area pursuant to Section 8(c) (1) of the United States Housing Act of 1937 (42 U.S.C. section 1437f [c] [1]) and 24 C.F.R. Part 888, with such Fair Market Rents to be adjusted based upon whether the tenant pays his or her own gas and/or electric charges as part of his or her rent as such gas and/or electric charges are accounted for by the New York City Housing Authority.

The Board concluded that for units formerly subject to rent control, either an increase to rent levels reflecting the Fair Market Rent guidelines established by the U.S. Department of Housing and Urban

Development (HUD), or 30% above the maximum base rent was a desirable minimum increase. Notably, the HUD guidelines differentiate minimum rents on the basis of bedroom count.

**INCREASE FOR UNITS RECEIVING PARTIAL TAX EXEMPTION PURSUANT TO SECTION 421 AND 423 OF THE REAL PROPERTY TAX LAW**

The guideline percentages for 421-A and 423 buildings were set at the same levels as for leases in other categories of stabilized apartments.

This Order does not prohibit the inclusion of the lease provision for an annual or other periodic rent increase over the initial rent at an average rate of not more than 2.2 per cent per annum where the dwelling unit is receiving partial tax exemption pursuant to Section 421-A of the Real Property Tax Law. The cumulative but not compound charge of up to 2.2 per cent per annum as provided by Section 421-A or the rate provided by Section 423 is in addition to the amount permitted by this Order.

**VACANCY ALLOWANCE**

As of June 15, 1997, Vacancy Allowances are now determined by a formula set forth in the State Rent Regulation Reform Act of 1997 and in Chapter 97 of the Laws of 2011.

**SUBLET ALLOWANCE**

The increase landlords are allowed to charge under Order #43 when a rent stabilized apartment is sublet by the primary tenant to another tenant on or after October 1, 2011 and on or before September 30, 2012 shall be **10%**.

**VOTES**

The votes of the Board on the adopted motion pertaining to the provisions of Order #43 were as follows:

	<u>Yes</u>	<u>No</u>	<u>Abstentions</u>
Guidelines for Apartment Order #43	5	4	-

Dated: June 28, 2011

Filed with the City Clerk: June 30, 2011

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Jonathan L. Kimmel  
Chair  
NYC Rent Guidelines Board

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