

EXPLANATORY STATEMENT - APARTMENT ORDER #32

**Explanatory Statement and Findings of the Rent Guidelines Board
In Relation to 2000-2001 Lease Increase Allowances for Apartments and Lofts
under the Jurisdiction of the Rent Stabilization Law¹**

Summary of Order No. 32

The Rent Guidelines Board (RGB) by Order No. 32 has set the following maximum rent increases for leases subject to renewal on or after October 1, 2000 and on or before September 30, 2001 for **apartments** under its jurisdiction:

LEASE RENEWALS

<u>1 Year</u>	<u>2 Years</u>
4%	6%

SUPPLEMENTAL ADJUSTMENTS

Plus a supplemental adjustment of **\$15** per month for apartments renting for \$500 or less as of September 30, 2000.

For rents that are \$215 or less per month after any allowable increase(s) in this Order are applied, the new lawful rent will be increased to \$215.

VACANCY ALLOWANCE

The vacancy allowance is now determined by a formula set forth in the State Rent Regulation Reform Act of 1997, 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, 2000 and on or before September 30, 2001 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, 2000 and on or before September 30, 2001. No vacancy allowance or low rent allowance is included for lofts.

<u>1 Year</u>	<u>2 Years</u>
3%	5%

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

1. 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.

Any increase for a renewal lease may be collected no more than once during the guideline period governed by Order No. 32.

SPECIAL GUIDELINES

Leases for units subject to rent control on September 30, 2000 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 order to aid DHCR in this review the Rent Guidelines Board has set a special guideline of whichever is greater:

(1) **150% above the Maximum Base Rent** (MBR) as it existed or would have existed, plus applicable fuel adjustments; 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, 2000.

All rent adjustments lawfully implemented and maintained under previous apartment Orders and included in the base rent in effect on September 30, 2000 shall continue to be included in the base rent for the purpose of computing subsequent rents adjusted pursuant to this Order.

Background of Order No. 32

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. 32 was issued by the Board following one public hearing, eight public meetings, its review of written submissions provided by the public, and a review of research and memoranda prepared by the Board's staff. A total of 59 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 15th, 2000** deadline. All of the above listed documents were available for public inspection.

Open meetings of the Board were held following public notice on March 21st, March 28th, April 11th, April 25th, May 2nd, and June 6th, 2000. A written transcription or audio recording was made of all proceedings. **On May 8th, 2000**, the Board adopted proposed rent guidelines for apartments, lofts, and hotels.

A public hearing was held on **June 15th, 2000** 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 1:00 p.m. to 5:30 p.m., and from 8:00 p.m. to 11:00 p.m. on June 15th, 2000. Testimony from members of the public speaking at these hearings was added to the public record. The Board heard testimony from 52 apartment tenants and tenant representatives, 24 apartment owners and owner representatives and 10 public officials. **On June 22nd, 2000** the guidelines set forth in Order No. 32 were adopted.

PRESENTATIONS BY 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>
March 21st, 2000:	<u>Staff presentation, 2000 Mortgage Survey</u>
1. Glenn Borin	Deputy Commissioner for Real Property, NYC Dept. of Finance
2. Michael Cooney	Assessor in Charge, NYC Dept. of Finance
3. Louis Giampetruzzi	NYC Dept. of Finance
March 28th, 2000:	<u>Consultant presentation 'What to do With the Price Index'</u>
1. Dr. Anthony Blackburn	Housing Consultant
April 11th, 2000:	<u>Staff presentation, 2000 Income & Expense study</u>

1. William Kusterbeck Treasurer, Dept. of Environmental Protection,
New York City Water Board
April 25th, 2000: Staff presentations, 2000 Income & Affordability study:
2000 Price Index of Operating Costs

May 2nd, 2000: Owner group testimony:
1. Jack Freund Executive Vice President, Rent Stabilization Association
2. Dan Margulies Executive Director, Community Housing Improvement Program
3. Jimmy Silber Vice President, Small Property Owners of New York
4. Christopher Athineos Property Owner, Athineos Enterprises, Inc.

Tenant group testimony:
1. Michael McKee Associate Director, New York State Tenants & Neighbors Coalition
2. Peter Marcuse Professor of Urban Planning, Columbia University
3. Celia Irvine Housing Policy Analyst, Office of the Manhattan Borough President
4. Kenny Schaffer Staff Attorney, Legal Aid Society
5. Liz Krueger Director, Access to Benefits Projects, Community Food Resource Center
6. Candace Mitchell rent stabilized tenant

June 6th, 2000: Staff presentation, 2000 Housing Supply Report
Panel on Affordable Housing Development in NYC
1. John Reilly Executive Director, Fordham-Bedford Housing Corp.
2. Donna Gibbons Deputy Director, Manhattan Valley Development Corp.
3. Lydia Tom Director of Housing and Finance, The Enterprise Foundation of New York
4. Chuck Brass President and CEO, Housing Partnership Development Corp.
5. Michael Schill Director of the Center for Real Estate and Urban Policy, NYU School of Law

SELECTED EXCERPTS FROM ORAL AND WRITTEN TESTIMONY FROM OWNERS AND OWNER GROUPS²

Comments from owners and owner groups included:

"In light of substantial increase in costs this year [and] the inadequacy of the Price Index in capturing all cost increases ...the RSA is asking the Board to approve a 9% increase in rent for a one-year lease renewal. And in light of the underlying inflationary trends which are now becoming evident, as well as the risks of unexpected cost increases which owners incur when they enter into longer term leases, we ask that the board approve a 15% increase for two-year leases."

"The supplemental adjustment for low rent apartments reflects the realization by the board that a percentage increase translates into a lower dollar amount for low rent apartments than for higher rent apartments. This supplemental dollar amount added to the guideline percentage increases the likelihood that all apartments will derive the intended benefits of the rent increases deemed necessary by the RGB. Even though a low rent adjustment has been authorized by the Board for the last five years, a significant number of apartments still rent for \$500 or less per month. This is an indication that a substantial number of apartments started out with such inordinately low rents that even the prior supplemental

2. Sources: Submissions by owner groups and testimony by owners.

adjustments have failed to raise these rent levels significantly. ...In consideration of these factors, we [the RSA] strongly urge the Board to maintain the current supplemental adjustment for low rent apartments, and to consider restoring the adjustment to its prior level of \$20."

"Last year, the Board inexplicably dropped the 5% vacancy allowance for sublets which it has adopted in each of the two prior years. It should be restored and increased this year....[W]e (the RSA) ask that the Board grant a vacancy allowance in the amount of 10% for sublets, an amount equal to the bonus which accrues to the prime tenant in a sublet situation."

"I wanted to focus today on certain administrative and related costs that the Board probably doesn't fully understand. Every year there are new costs imposed on property owners by the city, state, and federal government. These costs are frequently phased in with the implementation of a rule months or years after a statutory change. Often, the costs were not considered or were misunderstood in drafting the law or rule. A seemingly simple paperwork requirement can become a substantial record keeping expense."

"As imperfect as the system is I think the signal that we get from the price index this year is that prices are going up. Costs are going up. Fuel is skyrocketing. There is inflationary pressure in the cost of running a building and that has to be addressed by this Board. Two percent and three percent increases aren't going to cut it this year because the small owner is going to be pushed over the edge if he doesn't get a substantial increase."

SELECTED EXCERPTS FROM ORAL AND WRITTEN TESTIMONY FROM TENANTS AND TENANT GROUPS³

Comments from tenants and tenant groups included:

"The supply of rent stabilized apartments with rents under \$500 is diminishing rapidly, in large part because of five years of 'supplemental' rent increases under the Koch administration and six years under Giuliani. The incomes of tenants in these apartments clearly are much lower than the incomes of tenants in apartments renting for \$500 or more. And the tenants of these apartments are overwhelmingly people of color and/or Spanish-speaking. The RGB justifies the poor tax by citing the amount required on average to operate and maintain buildings with rent stabilized apartments. This overlooks the reality that landlords run their buildings on the rent roll from the entire building, not from individual apartments, and that landlords collect a range of rents from high to low. It's time that you end this punitive rent increase."

"Tenants and Neighbors supports legislation (A.1865) in the State Legislature that would give the New York City and suburban Rent Guidelines Boards subpoena power and mandate an annual audit of a representative sample of buildings. We have suggested in the past that the RGB pass a resolution supporting this bill, and we suggest it again now."

"[Y]ou should heed the advice contained in last year's submission from the Rent Stabilization Association, when they told you not to focus on the one-year changes in the Price Index, but to look at rent-stabilized housing over time. A majority of the Board listened to the RSA last year, and the year before, when despite two years of zero Price Indices, you granted rent increases that cumulatively have

3. Sources: Submissions by tenant groups and testimony by tenants.

raised rents citywide by at least five percent. If you can disregard the Price Index when it doesn't justify rent increases for two years in a row, you can also disregard it this year, when it would seem to justify a rent hike. Or a majority of this Board can once again demonstrate that fairness to tenants doesn't enter into your considerations."

"[T]he existence of distressed housing is an important housing policy issue that needs to be addressed. However, the RGB, whose authority is limited to adjusting regulated rents, is not the appropriate body to address it. The RGB is not authorized to increase funding for owner outreach and education, for low-interest loan and grant programs, or to restructure the City's allocation of responsibility for generating revenue for the general fund or for the management of the City's water system. I urge the members not to allow concern for a small and troubled segment of the housing inventory to become the justification for across-the-board rent increases when there are other more direct strategies of addressing the needs of distressed housing."

"Consider these facts: inflation is markedly low and landlords' profits are already high. These proposals follow years of increases despite flat operating costs. And those increases have become a permanent part of the rent structure even though fuel-cost spikes are temporary. Everybody who lives in New York already knows, either from experience or published research findings, that New York's most affordable housing is at an all time low and that unregulated housing is astronomically expensive."

SELECTED EXCERPTS FROM ORAL AND WRITTEN TESTIMONY FROM PUBLIC OFFICIALS⁴

Comments from public officials included:

"I strongly urge the Rent Guidelines Board to reduce the proposed rent increase to no more than 2 and 4 percent, to eliminate the supplemental "poor tax," to eliminate the proposed increases for loft units and SRO units (and, if any SRO increase is allowed, to make it applicable to buildings in which at least 80% of units are used as SRO housing). I also strongly urge the Board to support a change in methodology for evaluating rent increases to look at landlords' income rather than operating expenses and maintenance costs, which would help bring rent increases down and allow more tenants to afford to remain in their homes."

"I urge the Board to approve no rent increases for apartments, SROs or boarding houses this year. I also urge the Board to repeal the so-called \$15 "poor tax."

"As we are all aware, rents in our communities continue to skyrocket, and more and more middle class and elderly tenants are forced to relocate. The only way that we will maintain our affordable housing stock is to continue the fair adjustment for tenants by imposing the 2% and 4% increases that we have already seen success with. I respectfully request that the members of the Board seriously consider the needs and financial limits that tenants face, and approve the 2% and 4% increases for the coming year."

"Inflated rent guideline increases are an attack on working people, middle-income and low-income tenants. Large increases, such as these proposed, will cause real hardship for many current tenants, at a

4. Sources: Submissions by public officials.

time large owners are already enjoying historic revenue increases. And, even worse, higher-than-reasonable increases serve to jack up rents at a rapid pace towards the threshold level for deregulation."

"The \$15 surcharge on apartments renting for \$500 or less targets the same vulnerable New Yorkers who have already been hit with this "poor tax" every year since 1994. The median income of tenants with a rent less than \$500 in 1998 was \$15,000. Many of these tenants are paying 30% or more of their incomes toward rent. This surcharge is unjust and mean spirited."

RENT GUIDELINES BOARD RESEARCH

The Rent Guidelines Board also based its determination on its consideration of the following reports and information prepared by the RGB's staff:

- (1) 2000 Mortgage Survey Report, March, 2000, (An evaluation of recent underwriting practices, financial availability and terms, and lending criteria);
- (2) 2000 Owner Income and Expense Study, April, 2000, (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) 2000 Tenant Income and Affordability Study, April, 2000, (Includes employment trends, housing court actions, changes in eligibility requirements and public benefit levels in New York City);
- (4) 2000 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City, April, 2000, (Measures the price change for a market basket of goods and services which are used in the operation and maintenance of stabilized buildings);
- (5) 2000 Housing Supply Report, June, 2000, (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,

The Board also examined the 1999 New York City Housing and Vacancy Survey data on vacancy rates. The information showed that the vacancy rate for stabilized units was lower in 1999 (3.19%) than it was in 1996 (4.01%).

2000 PRICE INDEX OF OPERATING COSTS FOR RENT STABILIZED APARTMENT HOUSES IN NEW YORK CITY

The 2000 Price Index of Operating Costs For Rent Stabilized Apartment Houses in New York City found a 7.8% increase in costs for the period between April, 1999 and April, 2000.

Over the year ending April 2000, increases in costs occurred in most PIOC components, ranging from a 0.7% rise in insurance costs to a 54.8% increase in fuel costs. While all PIOC components experienced increases this year, the extraordinary rise in fuel costs (54.8%), and strong increases in utility costs (5.7%) and taxes (5.2%), drove the overall PIOC increase to 7.8%, the highest increase since 1990 (10.9%). The 2000 PIOC was higher than the 5.3% projected in 1999, primarily because of the spike in fuel costs (54.8%) which was higher than estimated (22.2%).

Staff also computed a "core" PIOC, which excludes erratic changes in fuel oil, natural gas, and electricity costs, as a supplement to the regular PIOC. This core PIOC, like the core Consumer Price Index, is useful for analyzing longer-term inflationary trends.

In recent years the "core" rate has fluctuated between approximately 2% and 3%. The "core" rate

5. Totals may not add due to weighting and rounding..

6. Totals may not add due to weighting and rounding..

moved upward from 2.1% in 1994 to 2.4% in 1995, and to 3.1% in 1996. The rate dropped slightly to 3.0% in 1997, fell further to 2.3% in 1998, then rose to 2.5% in 1999. This year, the core rose by 3.8%, the highest rate seen since 1993 when the "core" also rose by 3.8%. The "core" slightly outpaced growth in the Consumer Price Index (CPI), which grew by 3.4% from March 1999 to March 2000.

Overall, the PIOC is expected to grow by 3.8% from 2000 to 2001 due to brisk increases in taxes and fuel costs and more moderate growth in labor, utility, contractor services and administrative costs. The absence of fuel and most utility costs from the core PIOC will cause this index to rise somewhat more slowly, by 3.4%, due to relatively rapid increases in taxes, and labor based component costs.

Table 1 details the expenditure weights, the percentage change and weighted percentage change by component for the 2000 Price Index.

Table 1

1999-2000 Percentage Changes in Components of the Price Index of
Operating Costs for Rent Stabilized Apartment Houses in New York City ⁵

Item	Expenditure Weights	1999-2000 Percentage	1999-2000 Weighted Percentage
Taxes	25.89%	5.18%	1.34%
Labor Costs	17.62	2.62	0.46
Fuel Costs	7.33	54.79	4.02
Utility Costs	14.66	5.68	0.83
Contractor Services	15.64	4.58	0.72
Administrative Costs	8.85	3.96	0.35
Insurance Costs	6.65	0.66	0.04
Parts &Supplies	2.34	1.93	0.05
Replacement Costs	1.01	0.77	0.01
All Items	100.00	-	7.82

Source:2000 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City.

LOCAL LAW 63/ INCOME & EXPENSE REVIEW

Following computerization of I&E filings, the sample size for the I&E study has been greatly increased to over 10,000 buildings. This is the ninth 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 costs in 1999 I&E statements for the year 1998:

Table 2

	2000 Income and Expense Study		Average Monthly All Stabilized
	Operating and Maintenance Costs Per Unit ⁶		
	Pre '47	Post '46	
Taxes	\$89	\$146	\$105
Labor	53	99	66
Fuel	37	29	35
Utilities	44	51	46
Maintenance	94	86	92

7. 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 ratios would be .67 (All),.70 (Pre-47),and .63 (Post-46), respectively. The unadjusted O&M to Income ratios would be .61 (All),.63 (Pre-47),and .57 (Post-46).

Administration	57	67	60
Insurance	23	19	22
Miscellaneous	32	37	33
Total	\$430	\$ 536	\$459

Source:2000 Owner Income and Expense Study, from 1999 Real Property Income and Expense filings for 1998, 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 figures were compared to statements filed by owners. On average the audits showed an 8% over reporting of expenses and a 1% under-reporting of income. 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 income and expense data would yield similar findings to the 1992 audit, one would expect the average O&M cost for stabilized buildings to be \$422 rather than \$459. As a result, the following relationship between operating costs and residential rental income was suggested by the Local Law 63 data:

Table 2(a)

2000 Operating Cost to Rent/Income Ratio Adjusted to 1992 Audit

	<u>O&M Costs⁷</u>	<u>Rent</u>	<u>O&M to Rent Ratio</u>	<u>Income</u>	<u>O&M to Income Ratio</u>
All stabilized	\$422	\$681	0.62	\$755	.56
Stabilized Pre'47	\$395	\$617	0.64	\$684	.58
Stabilized Post'46	\$492	\$849	0.58	\$940	.52

Source:2000 Owner Income and Expense Study, from 1999 Real Property Income and Expense filings for 1998, NYC Department of Finance.

FORECASTS OF OPERATING AND MAINTENANCE PRICE INCREASES FOR 2000-01

In order to decide upon the allowable rent increases for two-year leases, the Rent Guidelines Board 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 2000-01 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

Year-to-Year Percentage Changes in Components of the Price Index of Operating Costs:
Actual 1999-2000 and Projected 2000-01

	<u>Price Index 1999-2000</u>	<u>Projected Price Index 2000-01</u>
Taxes	5.2%	5.2%
Labor Costs	2.6	2.9
Fuel Costs	54.8	7.0
Utility Costs	5.7	3.2
Contractor Services	4.6	3.6
Administrative Costs	4.0	3.4
Insurance Costs	0.7	0.9

Parts & Supplies	1.9	2.0
Replacement Costs	0.8	1.0
Total (Weighted)	7.8%	3.8%

Source: 2000 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City, which includes the 2001 PIOC Projection.

Taxes

Property taxes comprise roughly a quarter of the PIOC. From the mid 1980's to the early 1990's, taxes often rose faster than the overall PIOC. Recently however, slower increases in tax rates and falling or stable assessments meant lower than average increases in taxes. However, the 5% increase in assessments found in 2000 may indicate that the effects of the NYC economic recovery are finally being felt in the Tax component.

Class Two properties include rent stabilized apartments, co-ops and condominiums. Within this category, rent stabilized dwellings are classified as either "rental buildings" or "4-10 unit family buildings." Based on the preliminary tax roll, the Finance Department forecasts billable assessments (the assessed value of a property on which tax liability is based) for rental buildings to increase by 8.6%, while billables for 4-10 family buildings are expected to increase by 4.8% in 2001. However, preliminary assessments are slightly imprecise because following the release of the tentative assessment roll each year, a small percentage of appraisals are contested and overall final assessments are generally reduced.

After adjusting for estimated changes in the class levy share, the value of exemptions, the tax rate, the value of abatements, and contested assessments, it is estimated that the tax cost to owners will grow by 6.5% and 2.8% respectively for rentals and 4-10 unit properties. Once these tax class categories are combined according to their proportion of the stabilized stock and distribution by borough, average property tax bills for rent stabilized buildings, which are predominantly classified as "rental" buildings, are estimated to increase by 5.2% in the next fiscal year.

Projection for April '00 to April '01

Taxes5.2%

Labor-Based Components (Contractor Services, Labor Costs, and Administrative Costs)

Labor Based Components in the PIOC include "Labor Costs," comprising the wages and benefits of building maintenance workers (e.g. superintendents, porters, etc.), "Contractor Services," which primarily covers the work of plumbers and painters, and "Administrative Costs," which is almost entirely comprised of management, legal, and accounting fees.

At the release of this report a new contract for Union Local 32B -32J had yet to be negotiated for the year 2001. The only wages set for the upcoming year are for Local 32E. All other projected labor increases are based on a three-year average.

8. Source: "Short-Term Energy Outlook," April 2000. U.S. Energy Information Administration, Department of Energy.

9. "Normal" weather refers to the typical number of heating degree-days measured at Central Park over a given period. A heating degree-day is defined as, for one day, the number of degrees that the average temperature for that day is below 65 degrees Fahrenheit.

Wages for members of Local 32-E will rise 1.8% while wages for Local 32B-32J are predicted to rise 2.7%. By combining these increases with the remaining items in the Labor component, an increase of 2.9% is projected in labor costs for the coming year.

Increases in "Administrative Costs" and "Contractor Services" are projected by averaging the growth rates observed in each component over the past three years. Administrative cost increases have been fairly constant over the decade and are estimated to rise by 3.4% over the next year. In comparison, the cost of Contractor Services has been more variable in the recent past and based on a three-year average is projected to increase by 3.6% next year.

Projection for April '00 to April '01

Administrative Costs.....	3.4%
Contractor Services.....	3.6%
Labor Costs.....	2.9%

Fuel Costs

The cost of fuel oil depends heavily on volatile weather patterns as well as political and economic variables that cannot be reliably predicted. Given these difficulties (and barring unforeseen natural or geo-political events), the cost of fuel oil in New York City is estimated to rise by 7.0% in the coming year following last year's significant cost increase.

Similar to last year, the biggest single factor influencing petroleum product prices over the next year will be crude oil prices. In 2000, average annual crude oil costs for the first half of the year are expected to be about double the price compared to the same period a year ago. These higher crude oil prices mean higher petroleum product prices, however, crude prices are projected to decline in 2001.

Assuming that annual temperatures return to the most recent five-year average for Central Park, New York City (see Endnote 1), which will be about 5% colder than that experienced in 1999-2000, the commensurate increase in demand for heating fuels will in turn accelerate the cost of fuel oil to building owners.

In sum, based on current U.S. Energy Information Administration (EIA) forecasts⁸, rising fuel prices and elevated fuel consumption brought about by "normal" weather conditions⁹, are estimated to increase fuel oil costs to owners of stabilized buildings in New York City by 7.0% in the next year.

Projection for April '00 to April '01

Fuel Costs.....	7.0%
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Utility Costs

In the PIOC, the costs of electricity, natural gas, water and sewer service, purchased steam, and telephone service are grouped as "Utility Costs." Water and sewer costs alone account for about 62% of

this component, while electricity and gas comprise another 35% of the utility category (17% and 18% respectively). Steam and telephone prices constitute the remainder of the utility component (3%).

Next year, the overall cost of utilities is estimated to rise by 3.2%. The bulk of this growth will come from a sharp estimated increase in the cost of natural gas (11.4% according to EIA estimates). The projected rise in gas costs is offset by more moderate estimates of increases in electricity costs (2.6%), and in water and sewer rates (a 1.0% increase is proposed for the coming year).

The New York State Public Service Commission (PSC) estimates that, following a recent rate drop, electricity base rates will remain constant in the upcoming year. In April 2000, Con Edison's electricity rates were reduced by 2.0% for most multi-family buildings. Next April, electricity rates for these properties are expected to decline an additional 2.0% - 3.5%, depending on the size of the building. However, adjustment charges for the changing cost of supplying power should increase somewhat assuming fuel prices behave as predicted. Using EIA projections, the cost of electricity is estimated to rise by 2.6% over the coming year.

Natural gas costs are estimated to increase by 11.4% next year. With current storage levels above those of last year's, natural gas prices are projected to stay relatively constant. In addition, both Brooklyn Union Gas and Con Edison project a continuation of their rate freeze next year. Assuming a return to the five-year average weather pattern, however, in combination with EIA estimates for the change in natural gas prices, increased consumption is projected to ultimately produce growth in gas costs of 11.4% over the next year.

During the past ten years, Water and Sewer costs have grown the fastest of all the items in the Utilities component. After many double digit increases, water and sewer rates were frozen from FY 1994 to FY 1995. Rates were unfrozen in FY 1996, rising by 5%, followed by increases of 6.5% in FY 1997 and '98. Rates rose less rapidly in the last two fiscal years, each by 4%. An increase of 1% for FY 2001 should take effect from July 1st, given current proposals before the New York City Water Board.

In total, weighted increases in water/sewer charges, electricity and natural gas costs, are projected to cause Utility Costs to rise by 3.2% in 2000.

Projection for April '00 to April '01

Utilities.....3.2%

Insurance Costs

Insurance Costs for rent stabilized buildings increased 0.7% last year. This highly variable component showed a decrease of 1.5% in 1998 and an increase of 3.5% in 1999. Based on the latest three-year average, Insurance Costs are estimated to rise by 0.9% over the coming year.

Projection for April '00 to April '01

Insurance Costs.....0.9%

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10. The accuracy of the PIOC is assumed, as is the collectibility of legally authorized increases. Calculating the "traditional" Commensurate Rent Increase requires an assumption about next year's PIOC. In this case, the 3.8% PIOC projection for 2001 is used.
 11. Whether profits will actually decline depends on the level of inflation, the composition of NOI (i.e. how much is debt services and how much is profit), changes in tax laws, and interest rates.

Parts and Supplies

The Parts and Supplies component has usually played a very small role in the PIOC, comprising less than 3% of the index in 2000. Over the past five years there has been very modest growth in this component ranging from 0.8% to 2.2%. This trend should extend to 2001 when the cost of Parts and Supplies is estimated to increase by 2.0%.

Projection for April '00 to April '01

Parts and Supplies.....2.0%

Replacement Costs

This component accounted for about one-percent of the entire price index in 2000. Over the past year, Replacement Costs increased by only 0.8%. The modest 14-year trend of growth in Replacement Costs should continue with costs rising by an estimated 1.0% over the next year.

Projection for April '00 to April '01

Replacement Costs.....1.0%

COMMENSURATE RENT ADJUSTMENT

Throughout its history, the Rent Guidelines Board has used a formula, known as the "commensurate rent increase," to help determine annual rent increases 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 rise for net operating income (NOI) in stabilized buildings to remain constant. The "commensurate" increase described below is primarily meant to provide an initiation, and not a floor or ceiling, for discussion concerning prospective guidelines.

In its simplest form, the commensurate rent increase is the amount of rent growth needed to maintain

12. The following assumptions were used:(1) The required increase in landlord revenue is the sum of the increase due to increased costs and the impact of inflation on NOI. The increase in revenue due to costs is 61% of the 2000 PIOC increase of 7.8%,or 4.76%. The 61% figure is the most recent ratio of average operating costs to average income in stabilized buildings.

Assumptions regarding lease renewals were derived from the 1999 Housing and Vacancy Survey. In a given year approximately 29.4% of stabilized tenants sign a one-year lease, and 29.5% sign a two-year lease. Another 29.5% have a two-year lease but do not sign,and 11.6% turn over, and are subject to a vacancy lease. For the commensurate including a vacancy assumption,the 12.0% median increase in vacancy leases found in the 1998 Recent Movers Study was used. These terms are only illustrative. Other combinations of terms could produce the 4.76% increase in landlord revenue.

13. The following assumptions were used:(1) The required increase in landlord revenue is the sum of the increase due to increased costs and the impact of inflation on NOI. The increase in revenue due to costs is 61% of the 2000 PIOC increase of 7.8%,or 4.76%. The 61% figure is the most recent ratio of average operating costs to average income in stabilized buildings. The increase in revenue due to the impact of inflation on NOI is 39% times the latest March 1999 to March 2000 12-month increase in the CPI (3.4%) or 1.32%.Thus,the total increase in landlord income required is 6.07%. (2) Assumptions regarding lease renewals were derived from the 1999 Housing and Vacancy Survey. In a given year approximately 29.4% of stabilized tenants sign a one-year lease, and 29.5% sign a two-year lease. Another 29.5% have a two-year lease but do not sign,and 11.6% turn over, and are subject to a vacancy lease. For the commensurate including a vacancy assumption,the 12.0% median increase in vacancy leases found in the 1998 Recent Movers Study was used. These terms are only illustrative. Other combinations of terms could produce the 6.07% increase in landlord revenue.

landlords' current dollar NOI at a constant level. The commensurate rent increase for this year is¹⁰:

<u>One Year Lease</u>	<u>Two Year Lease</u>
4.8%	6.0%

As a means of compensating landlords for cost increases, this "traditional" commensurate rent increase 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 past O&M increases.

A second possible 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 commensurate formula.¹¹

Two alternatives to the commensurate rent increase adjusts for the mix of lease terms and sources of landlord revenue allowed by the RGB other than lease renewals (e.g. vacancy allowance). The first is called the "**Net Revenue**" approach, and takes into consideration the mix of leases actually signed by tenants but does NOT adjust NOI for inflation. This year, two alternative formulas are presented in two ways. First, the formula is presented with an assumption for stabilized apartment turnover and vacancy increases, and second, without this assumption. Under the "Net Revenue" formula, a guideline that would preserve NOI in the face of this year's 7.8% increase in PIOC, is **4.0%** for a one-year lease and **7.5%** for a two-year lease with a vacancy increase assumption, and **6.5%** and **9.5%** without a vacancy increase assumption.¹²

The "**CPI-Adjusted NOI**" formula considers the mix of one- and two-year lease terms while adjusting NOI upward to reflect inflation, keeping both O&M and NOI constant. A set of guidelines which would preserve NOI in the face of the 3.4% increase in the Consumer Price Index (March '99 to March '00) and the 7.8% rise in the PIOC, including an assumption for turnover and the median Citywide vacancy increase found in the 1998 Recent Movers Survey of 12%, is **6.0%** for a one-year lease and **10.0%** for a two-year lease. Guidelines using this formula without including an assumption for turnover and vacancy increases are **8.5%** for a one-year lease and **12.0%** for a two-year lease.¹³

All of these methods have their limitations. The traditional commensurate increase 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" method has its limitations. The "CPI-Adjusted NOI" formula inflates the debt service portion of NOI, even though interest rates have been generally falling over recent years. However, the fact that this year's Mortgage Survey found an increase in interest rates for multi-family stabilized properties may indicate that this trend is reversing.

14. 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.

15. Data for FY 2000 reflects the number of titles vested during the first 8 months of the fiscal year. FY 1993 vestings figures were revised and may not be the same as those reported in prior years. 2000 marks the fifth year the City implemented its anti-abandonment and modified in rem foreclosure policies that include sales of tax liens.

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.

16. 1991-1993 figures include conversions of commercial structures to residential cooperatives and the rehabilitation of vacant residential structures, while 1994 through 1999 rehabilitation plans are a separate category. 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. For 1996, information on specific types of cooperative / condominium plans filed was unavailable.

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 2000 Mortgage Survey of lending institutions. Table 4 gives the reported rate and points for the past nine years as reported by the mortgage survey.

Table 4

2000 Mortgage Survey ¹⁴
Average Interest Rates and Points for
New and Refinanced Permanent Mortgage Loans 1992-2000

	New Financing of Permanent Mortgage Loans, Interest Rate and Points								
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Avg. Rates	10.1	9.2	8.6	10.1	8.6	8.8	8.5	7.8	8.7
Avg. Points	1.4	1.4	1.2	1.28	1.32	1.34	1.02	1.01	0.99

	Refinancing of Permanent Mortgage Loans, Interest Rate and Points								
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Avg. Rates	10.1	9.2	8.6	10.1	8.5	8.4	8.5	7.2	8.6
Avg. Points	1.4	1.4	1.1	1.25	1.21	1.15	0.99	0.92	1.01

Source: 1992-2000 Annual Mortgage Surveys, RGB.

CONDITION OF THE RENT STABILIZED HOUSING STOCK

The Board reviewed the number of buildings being taken by the City through its in rem actions and the number of units that are moving out of the rental market due to cooperative and condominium conversion.

Table 5

Summary Data of In Rem Vestings ¹⁵
of Occupied Multiple Dwellings, Fiscal Years 1993-2000

	1993	1994	1995	1996	1997	1998	1999	2000
Titles Vested	211	69	17	2	0	0	0	0
Total Units	(2,455)	(715)	(240)	(49)	(0)	(0)	(0)	(0)

Source: NYC Department of Housing Preservation and Development, Office of Property Management. 1996 marks the first year the City implemented its anti-abandonment and modified *in rem* foreclosure policies that include sales of tax liens.

17. Estimate of percentage increases are based on the Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City for the relevant year and adjustments made by the Rent Guidelines Board; detailed explanations are available in the individual Explanatory Statements of the Board.
18. For explanation of the derivation of individual percentage rent increases see the Explanatory Statements of the Board's previous Orders.
19. The rent index for the period 10/1/97-9/30/98 is revised from 5.53% to 3.66% to reflect more recent data from the Recent Mover Survey. The 3.66% increase in rent roll estimated for leases signed during the period 10/1/97-9/30/98 under Order 29 reflects the following: (1) Renewal guidelines are estimated to contribute a 0.568% and 1.199% increase in the rent roll with 28.4% of all units experiencing a one-year lease signing (2%) and 30.0% of all units experiencing two-year lease signings (4%). These figures are derived from the 1996 Housing and Vacancy Survey (HVS), Table 10058 which gives reported lease terms. "Less than one year" was assumed to be a one-year lease and "More than one year" and "More than two years" were assumed to be a two-year lease. These sums were reduced by the turnover rate of 11.6%, derived from the latest full year of the 1996 HVS (118,133 year moved avg. 1995-98) and taken as percentages of all stabilized lease signers (1,014,751); (2) the vacancy allowance of 15.1%, which is the increase in mean monthly rent found in stabilized units after a vacancy in the Recent Mover Survey, from 1997 prior to the Rent Regulation Reform Act (\$767), to 1997-98 after the Act took effect (\$883), is estimated to increase overall rent rolls by 1.761% when multiplied by the average HVS turnover rate (11.6%) for 1993-95, which estimates the percentage of rent stabilized units that will enter into vacancy leases under Order 29; (3) the supplemental adjustment of \$15 for units renting at \$400 or less is estimated to contribute a 0.136% increase in rent roll, derived as follows: according to the 1996 HVS, 113,666 units rented for \$378 or less per month. Updating \$378 by the RGB Rent Index for 10/1/96 to 9/30/97 (5.72), results in an average rent of \$400 per month. Only 58.4% (28.4% for 1-year plus 30% for 2-year leases) of all units sign a lease in a given guideline year, therefore, we estimate that approximately 66,381 units would have been affected by the Board's supplemental adjustment. This group represented 6.5% of the occupied rent stabilized universe in 1996 (1,014,751 units), multiplied by the estimated percentage increase in rent roll represented by \$15 a month, 2.1% (\$15/\$719, the mean 1996 HVS stabilized rent of \$680 updated by the RGB Rent Index), for a result of 0.136%.
20. The rent index for the period 10/1/98-9/30/99 is revised from 3.86% to 3.71% to reflect consistent lease terms for all rent index calculations from 1997 to 1999. The 3.71% increase in rent roll estimated for leases signed during the period 10/1/98-9/30/99 under Order 30 reflects the following: (1) Renewal guidelines are estimated to contribute a 0.568% and 1.199% increase in the rent roll with 28.4% of all units experiencing a one-year lease signing (2%) and 30.0% of all units experiencing two-year lease signings (4%). These figures are derived from the 1996 Housing and Vacancy Survey (HVS), Table 10058 which gives reported lease terms. "Less than one year" was assumed to be a one-year lease and "More than one year" and "More than two years" were assumed to be a two-year lease. These sums were reduced by the turnover rate of 11.6%, derived from the latest full year of the 1996 HVS (118,133 year moved avg. 1993-95) and taken as percentages of all stabilized lease signers (1,014,751); (2) the vacancy allowance of 15.1%, which is the increase in mean monthly rent found in stabilized units after a vacancy in the Recent Mover Survey, from 1997 prior to the Rent Regulation Reform Act (\$767), to 1997-98 after the Act took effect (\$883), is estimated to increase overall rent rolls by 1.761% when multiplied by the average HVS turnover rate (11.6%) for 1993-95, which estimates the percentage of rent stabilized units that will enter into vacancy leases under Order 30; (3) the supplemental adjustment of \$15 for units renting at \$450 or less is estimated to contribute a 0.182% increase in rent roll, derived as follows: according to the 1996 HVS, 157,187 units rented for \$411 or less per month. Updating \$411 by the RGB Rent Index for 10/1/96 to 9/30/97 (5.72), and for 10/1/97 to 9/30/98 (3.66) results in an average rent of \$450 per month. Only 58.4% (28.4% for 1-year plus 30% for 2-year leases) of all units sign a lease in a given guideline year, therefore, we estimate that approximately 91,797 units would have been affected by the Board's supplemental adjustment. This group represented 9.0% of the occupied rent stabilized universe in 1996 (1,014,751 units), multiplied by the estimated percentage increase in rent roll represented by \$15 a month, 2.0% (\$15/\$745, the mean 1996 HVS stabilized rent of \$680 updated by the RGB Rent Index), for a result of 0.182%.
21. The rent index for the period 10/1/99-9/30/00 is revised from 3.90% to 3.91% to reflect consistent lease terms for all rent index calculations from 1997 to 1999. The 3.91% increase in rent roll estimated for leases signed during the period 10/1/99-9/30/00 under Order 31 reflects the following: (1) Renewal guidelines are estimated to contribute a 0.568% and 1.199% increase in the rent roll with 28.4% of all units experiencing a one-year lease signing (2%) and 30.0% of all units experiencing two-year lease signings (4%). These figures are derived from the 1996 Housing and Vacancy Survey (HVS), Table 10058 which gives reported lease terms. "Less than one year" was assumed to be a one-year lease and "More than one year" and "More than two years" were assumed to be a two-year lease. These sums were reduced by the turnover rate of 11.6%, derived from the average households who moved in the 1996 HVS (118,133 year moved avg. 1993-95) and taken as percentages of all stabilized lease signers (1,014,751); (2) the vacancy allowance of 15.1%, which is the increase in mean monthly rent found in stabilized units after a vacancy in the Recent Mover Survey, from 1997 prior to the Rent Regulation Reform Act (\$767), to 1997-98 after the Act took effect (\$883), is estimated to increase overall rent rolls by 1.761% when multiplied by the average HVS turnover rate (11.6%) for 1993-95, which estimates the percentage of rent stabilized units that will enter into vacancy leases under Order 31; (3) the supplemental adjustment of \$15 for units renting at \$500 or less is estimated to contribute a 0.279% increase in rent roll, derived as follows: according to the 1999 HVS, 237,773 units rented for \$500 or less per month. Only 58.4% (28.4% for 1-year plus 30% for 2-year leases) of all units sign a lease in a given guideline year, therefore, we estimate that approximately 138,859 units would have been affected by the Board's supplemental adjustment. This group represented 13.6% of the occupied rent stabilized universe in 1999 (1,020,588 units), multiplied by the estimated percentage increase in rent roll represented by \$15 a month, 2.1% (\$15/\$731, the mean 1999 HVS stabilized rent), for a result of 0.279%; and (4) the rent floor that raises rents at \$215 or less to \$215 is estimated to contribute a 0.105% increase in rent roll, derived as follows: according to the 1999 HVS, 25,866 units rented for \$215 or less per month, adjusted by .584 to 15,106 units. This group represents 1.5% of the occupied stabilized universe in 1999 (1,020,588), multiplied by the estimated percentage increase in rent roll represented by the difference between the monthly rent for these units \$163 and \$215 = \$52, as a percentage of mean average rent (\$731) for a result of 0.105%.
22. The 4.81% increase in rent roll estimated for leases signed during the period 10/1/2000-9/30/01 under Order 32 reflects the following: (1) Renewal guidelines are estimated to contribute a 1.167% and 1.757% increase in the rent roll with 29.2% of all units experiencing a one-year lease signing (4%) and 29.3% of all units experiencing two-year lease signings (6%). These figures are derived from the 1999 Housing and Vacancy Survey (HVS), Table 10058 which gives reported lease terms. "Less than one year" was assumed to be a one-year lease and "More than one year" and "More than two years" were assumed to be a two-year lease. These sums were reduced by the turnover rate of 12.3%, derived from the average households who moved in the 1996 HVS (118,133 year moved avg. 1995-98) and taken as percentages of all stabilized lease signers (1,020,588); (2) the vacancy allowance of 13.0%, which reduces the mean increase found on vacancy in the 1998 Recent Mover Survey (15.1%) downward to reflect the new vacancy allowances of 16% and 20% is estimated to increase overall rent rolls by 1.594% when multiplied by the HVS turnover rate (12.3%), which estimates the percentage of rent stabilized units that will enter into vacancy leases under Order 32; (3) the supplemental adjustment of \$15 for units renting at \$500 or less is estimated to contribute a 0.217% increase in rent roll, derived as follows: according to the 1999 HVS, 191,591 units rented for \$481 or less per month. Updating \$481 by the RGB Rent Index for 10/1/99 to 9/30/00 (3.912), results in an average rent of \$500 per month. Only 58.5% of all units sign a renewal lease in a given guideline year, therefore, we estimate that approximately 112,081 units will be affected by the Board's current supplemental adjustment. This group represented 11% of the occupied rent stabilized universe in 1999 (1,020,588 units) multiplied by the estimated percentage increase in rent roll represented by \$15 a month, 2.0% (\$15/\$760, the mean 1999 HVS stabilized rent of \$731 multiplied by the RGB Rent Index for the previous Order, 1.03912), for a result of 0.217%; and (4) the rent floor that raises rents at \$215 or less to \$215 is estimated to contribute a 0.075% increase in rent roll, derived as follows: according to the 1999 HVS, 25,866 units rented for \$215 or less per month, adjusted by .584 to 15,106 units. There should be only 10,760 remaining units. This group represents 1.1% of the occupied stabilized universe in 1999 (1,020,588), multiplied by the estimated percentage increase in rent roll represented by the difference between the monthly rent for these units \$161 and \$215 = \$54, as a percentage of mean average updated rent (\$760) for a result of 0.075%.

Table 6

		Number of Cooperative / Condominium Plans Accepted for Filing,1991-99								
		1991	1992	1993	1994	1995	1996	1997	1998	1999
New Construction		42	32	37	14	17	-	33	69	50
Non-Eviction Plans		27	11	4	10	9	-	4	40	12
Eviction Plans		5	0	2	11	5	-	0	0	27
Rehabilitation					45	56	-	-	48	30
Total		183	130	58	80	87	33	37	157	119
Subtotal:										
HPD Sponsored Plans		109	87	15	48	41	-	-	24	26

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

CONSUMER PRICE INDEX

The Board reviewed the Consumer Price Index. Table 7 shows the percentage change for the NY-Northeastern NJ Metropolitan area since 1993.

Table 7

		Percentage Changes in the Consumer Price Index for the New York City - Northeastern New Jersey Metropolitan Area,1993-2000 (For "All Urban Consumers")							
		1993	1994	1995	1996	1997	1998	1999	2000
1st Quarter Avg.		3.4%	2.5%	1.9%	3.5%	2.5%	1.3%	1.4%	3.4%
Yearly Avg.		3.0%	2.4%	2.5%	2.9%	2.3%	1.6%	2.0%	-

Source: U.S.Bureau of Labor Statistics.

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.

23. 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.
24. Estimated expense figure includes 1998 I&E expenses updated by 1999 Price Index for the period from 4/1/98 through 3/31/99 (0.03%). Income includes income estimate for 1998 updated by staff estimate based upon renewal guidelines and choice of lease terms for a period from 4/1/98 through 3/31/99 (3.68% - i.e., the 10/1/97 to 9/30/98 rent projection (3.66) times (.583), plus the 10/1/98 to 9/30/99 rent projection (3.71) times (.417)).
25. Estimated expense figure includes 1999 expense estimate updated by 2000 Price Index for the period from 4/1/99 through 3/31/2000 (7.8%). Income includes income estimate for 1999 updated by staff estimate based upon renewal guidelines and choice of lease terms for a period from 4/1/99 through 3/31/2000 (3.79% - i.e., the 10/1/98 to 9/30/99 rent projection (3.71) times (.583), plus the 10/1/99 to 9/30/2000 rent projection (3.91) times (.417)).
26. Estimated expense figure includes 2000 expense estimate updated by the staff PIOC projection for the period from 4/1/00 through 3/31/01 (3.8%). Income includes income estimate for 2000 updated by staff estimate based upon renewal guidelines and choice of lease terms for a period from 4/1/00 through 3/31/01 (4.27% - i.e., the 10/1/99 to 9/30/2000 rent projection (3.91) times (.583), plus the 10/1/00 to 9/30/01 rent projection (4.78) times (.417)).

Over the first two decades of rent stabilization, the change in the O&M to rent ratio contained in Table 8 (hereinafter, referred to as "Table 14" - its past designation) 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.

The first problem with "Table 14" is that the calculation does not account for the changes in the housing stock and market factors which have certainly affected the relationship between rents and operating costs to some degree. Next, for the purpose of measuring the relationship between legal regulated rents and operating cost changes, the usefulness of "Table 14" is also limited. The rent index contained in the table does not adjust for administrative rent increases (MCI's and Apartment Improvement increases) and rents charged below established guidelines (preferential).

The operating cost index contained in the table is more troublesome. The .55 base contained in the table reflects an estimate concerning nearly all post-war units. The vast majority of stabilized units (about 7 out of 10) are now in pre-war buildings, which had higher O&M ratios in 1970. The cost index was adjusted (departing from the PIOC) in the 1970's in an attempt to accommodate for this influx of pre-war buildings into the stabilized sector. This attempt was misguided. The rent index reflects changes in rents initially in the post-war sector - so adjustments to the cost index to reflect the influx of pre-war units' results in a one-sided distortion of the changing relationship between costs and rents.

Staff's research suggests that the PIOC may overstate actual cost increases. While most of this bias occurred in the 1970 - 1982 period, recent comparative evidence from the Income and Expense studies suggests that a gradual overstatement of operating costs may still occur under the PIOC. From 1990-91 to 1997-98, the I&E rose 26% while the adjusted PIOC rose 26.5%, a difference of .5 percentage points. Since this longitudinal analysis covers only an eight-year period, a conclusive statement on this pattern cannot be made at this time. What remains clear, however, is that "Table 14," in its current form, presents a highly misleading picture of the changing relationship of operating costs to rents over time.

Table 8 (Formerly Table 14)
Calculation of Operating and Maintenance Cost Ratio
For Rent Stabilized Buildings from 1972 to 2001

<u>Period</u>	<u>Percent O&M¹⁷ Increase</u>	<u>O&M Index</u>	<u>Period</u>	<u>Percent Rent¹⁸ Increase</u>	<u>Rent Index</u>	<u>O&M/Rent Ratio</u>
4/1/70-3/31/71	-	55	7/1/71-6/30/72	-	100	0.55
4/1/71-3/31/72	5.7	58.14	7/1/72-6/30/73	5.4	105.40	0.55
4/1/72-3/31/73	7.9	62.73	7/1/73-6/30/74	5.4	111.09	0.56
4/1/73-3/31/74	15.5	72.45	7/1/74-6/30/75	5.64	117.36	0.62
4/1/74-3/31/75	6.5	77.16	7/1/75-6/30/76	5.62	123.95	0.62
4/1/75-3/31/76	8.8	83.95	7/1/76-6/30/77	5.33	130.56	0.64
4/1/76-3/31/77	6.9	89.74	7/1/77-6/30/78	5.49	137.73	0.65
4/1/77-3/31/78	0.6	90.28	7/1/78-6/30/79	4.23	143.55	0.63
4/1/78-3/31/79	10.4	99.67	7/1/79-6/30/80	7.73	154.65	0.64
4/1/79-3/31/80	17.0	116.61	7/1/80-9/30/81	10.28	170.55	0.68
4/1/80-3/31/81	14.6	133.64	10/1/81-9/30/82	10.11	187.79	0.71
4/1/81-3/31/82	2.8	137.38	10/1/82-9/30/83	3.52	194.40	0.71
4/1/82-3/31/83	2.6	140.95	10/1/83-9/30/84	4.93	203.98	0.69
4/1/83-3/31/84	6.3	149.83	10/1/84-9/30/85	5.82	215.86	0.69
4/1/84-3/31/85	5.4	157.92	10/1/85-9/30/86	6.55	229.99	0.69

4/1/85-3/31/86	6.4	168.03	10/1/86-9/30/87	6.18	244.21	0.69
4/1/86-3/31/87	2.1	171.56	10/1/87-9/30/88	5.87	258.54	0.66
4/1/87-3/31/88	6.4	182.54	10/1/88-9/30/89	6.39	275.06	0.66
4/1/88-3/31/89	6.7	194.77	10/1/89-9/30/90	6.16	292.01	0.67
4/1/89-3/31/90	10.9	216.00	10/1/90-9/30/91	4.15	304.13	0.71
4/1/90-3/31/91	6.0	228.96	10/1/91-9/30/92	3.93	316.08	0.72
4/1/91-3/31/92	4.0	238.12	10/1/92-9/30/93	3.11	325.91	0.73
4/1/92-3/31/93	4.7	249.31	10/1/93-9/30/94	2.93	335.46	0.74
4/1/93-3/31/94	2.0	254.30	10/1/94-9/30/95	2.73	344.62	0.74
4/1/94-3/31/95	0.1	254.55	10/1/95-9/30/96	4.10	358.74	0.71
4/1/95-3/31/96	6.0	269.82	10/1/96-9/30/97	5.72	379.26	0.71
4/1/96-3/31/97	2.4	276.30	10/1/97-9/30/98	3.66 ¹⁹	393.16	0.70
4/1/97-3/31/98	0.1	276.58	10/1/98-9/30/99	3.71 ²⁰	407.75	0.68
4/1/98-3/31/99	0.03	276.65	10/1/99-9/30/00	3.91 ²¹	423.70	0.65
4/1/99-3/31/00	7.8	298.23	10/1/00-9/30/01	4.81 ²²	443.95	0.67

For years the staff has expressed serious reservations about the usefulness and accuracy of "Table 14". With current longitudinal income and expense data staff has constructed a new and far more reliable index, using 1989 as a base year. Except for the most recent year and the coming year, this new 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. The proposed new index is in Table 9.

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 the new table looks at the overall relationship between costs and income, it does not measure the specific impact of rent regulation on that relationship. This new table is listed below as Table 9.

Table 9

Revised Calculation of Operating and Maintenance Cost Ratio for
Rent Stabilized Buildings from 1989 to 2000

	Average Monthly <u>O & M Per d.u.</u> ²³	Average Monthly <u>Income Per d.u.</u>	Average O & M <u>to Income Ratio</u>
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 ²⁴	\$459 (\$422)	\$782	.59 (.54)
2000 ²⁵	\$495 (\$455)	\$812	.61 (.56)
2001 ²⁶	\$514 (\$472)	\$847	.61 (.56)

Source:RGB Income and Expense Studies,1989-2000,Price Index of Operating Costs 1992 - 2000,
RGB rent index for 1992 - 2001 (see table 8).

CHANGES IN HOUSING AFFORDABILITY

New York City's economy over the past year continued to mirror the strong performance of the nation. The City's improving economy is best exemplified by the growth in the Gross City Product (GCP), which increased by 5.3% in 1999, the highest recorded growth in the decade. The City also saw an increase in the number of jobs by 93,000, including 82,700 in the private sector, and a significant decrease in the unemployment rate. Inflation remained moderate last year, increasing by only 2.0%. However, while many sectors of the NYC economy have benefited, other sectors have not, including apartment-hunters and households at the low end of the wage scale.

Data from the recently released 1999 Housing and Vacancy Survey reflects the duality often found in NYC's economic indicators. While inflation-adjusted New York City renter income increased slightly from 1995 to 1998 (by 1.7%), real stabilized tenant income actually declined over the same period to \$27,000 (-0.5%). Overall housing affordability for stabilized tenants in 1999 showed slight improvement from 1996, with the contract rent-to-income ratio remaining under the 30% affordability level for the median household. However, the percentage of stabilized households paying 50% or more of their income on contract rent in 1996 (26.9%) was virtually the same three years later (26.8%).

The 1999 citywide vacancy rate of 3.19%, the lowest found since 1987, indicates that while owners are experiencing fewer vacancies, fewer apartments are available for tenants. Furthermore, the vacancy rate for stabilized apartments was even lower at 2.46% in 1999. The lack of housing availability in NYC is exacerbated by both increasing population and limited housing growth. The effects of low housing availability and income growth combine to hamper affordability for many stabilized households in NYC.

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, and where heat is not a service provided by the owner but is paid for separately by tenants (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 made no distinction between guidelines for buildings with different fuel and utility arrangements under Order 32.

Table 10

Index Type	Changes in Price Index of Operating Costs for Apartments in Buildings with Various Heating Arrangements, 1999-2000, and Commensurate Rent Adjustment	
	1999 to 2000 Price Index Change	One-Year Rent Adjustment Commensurate With Adjusted O&M to Income Ratio of .61
All Dwelling Units Individually Metered		
for Electricity:	7.8%.....	4.8%
Pre 1947	8.81.....	5.4
Post 1946.....	7.23.....	4.4
Oil Used for Heating.....	9.09.....	5.5
Gas Used for Heating	4.61.....	2.8
Master Metered		
for Electricity:.....	8.22.....	5.0

Source: RGB's 2000 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City.

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 5.8%, two percentage points less than the increase for apartments. This difference is explained by the fact that fuel costs that grew rapidly are less important for lofts than for apartments, and insurance costs that grew hardly at all are more important for lofts than for apartments.

This year's guidelines for lofts are: 3% for a one-year lease and 5% for a two-year lease.

Table 11

Changes in the Price Index of Operating Costs for Lofts from 1999-2000

	Loft O & M <u>Price Index Change</u>
All Buildings	5.8%

Source:2000 Price Index of Operating Costs for Rent Stabilized Lofts 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 which enter the stabilization system. This year, the Board set the guidelines at the greater of the following:

- (1) 150% above the Maximum Base Rent paid by the last tenant, plus applicable fuel adjustments 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 150% 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.

SUPPLEMENTAL GUIDELINES

In recognition of various information presented to the Board concerning average operating costs for rent stabilized units (see Table 9), the Board included within its Order two supplemental adjustments.

For apartments renting at \$500 or less on September 30th, 2000, a supplemental adjustment of \$15 is allowed. This allowance is added following adjustment authorized for renewal leases under this Order.

For rents that are \$215 or less per month after any allowable increase(s) in this Order are applied, the new lawful rent will be increased to \$215.

VACANCY ALLOWANCE

As of June 15, 1997, Vacancy Allowances are now determined by a formula set forth in the Rent Regulation Reform Act of 1997.

SUBLET ALLOWANCE

The increase landlords are allowed to charge under Order 32 when a rent stabilized apartment is sublet by the primary tenant to another tenant on or after October 1, 2000 and on or before September 30, 2001 shall be 10%.

VOTES

The votes of the Board on the adopted motions pertaining to the provisions of Order 32 were as follows:

	<u>Yes</u>	<u>No</u>	<u>Abstentions</u>
Guidelines for Apartment Renewal Leases	6	3	-
Guideline for Apartment Sublet Allowance	6	2	1
Guideline for Minimum Rent Supplement	5	4	-
Guideline for Lofts	6	3	-

Dated: June 30, 2000
Filed with the City Clerk: June 30, 2000

Edward S. Hochman, Esq., Chairman
Rent Guidelines Board

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