EXPLANATORY STATEMENT - APARTMENT ORDER #38

Explanatory Statement and Findings of the Rent Guidelines Board In Relation to 2006-07 Lease Increase Allowances for Apartments and Lofts under the Jurisdiction of the Rent Stabilization Law[1]

Summary of Order No. 38

The Rent Guidelines Board (RGB) by Order No. 38 has set the following maximum rent increases for leases subject to renewal on or after October 1, 2006 and on or before September 30, 2007 for **apartments** under its jurisdiction:

LEASE RENEWALS - WHERE HEAT IS PROVIDED OR REQUIRED TO BE PROVIDED TO A DWELLING UNIT BY AN OWNER FROM A CENTRAL OR INDIVIDUAL SYSTEM AT NO CHARGE TO THE TENANT

1 Year	2 Years
4.25%	**7.25%**

LEASE RENEWALS - WHERE HEAT IS NEITHER PROVIDED NOR REQUIRED TO BE PROVIDED TO A DWELLING UNIT BY AN OWNER FROM A CENTRAL OR INDIVIDUAL SYSTEM

1 Year	2 Years
3.75%	**6.75%**

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 82 of the Laws of 2003, not by the Orders of the Rent Guidelines Board.

SUPPLEMENTAL ADJUSTMENT

There shall be **no supplemental adjustment** for apartments renting below any specified amount for renewal leases.

There shall be **no equalization allowance** for apartments continuously occupied for a specified period of time for renewal leases.

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, 2006 and on or before September 30, 2007 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, 2006 and on or before September 30, 2007. No vacancy allowance or low rent allowance is included for lofts.

1 Year	2 Years
3.75%	**6.75%**

[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.

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. 38.

SPECIAL GUIDELINES

Leases for units subject to rent control on September 30, 2006 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. **50%** 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, 2006.

All rent adjustments lawfully implemented and maintained under previous apartment Orders and included in the base rent in effect on September 30, 2006 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. 38

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. 38 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. A total of approximately 54 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 21, 2006** deadline. All of the above listed documents were available for public inspection.

Open meetings of the Board were held following public notice on March 28, April 7, April 26, May 2, and June 1, 2006. A written transcription or audio recording was made of all proceedings. On **May 8, 2006**, the Board adopted proposed rent guidelines for apartments, lofts, and hotels.

Public hearings were held on **June 19, 2006** and **June 22, 2006** 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 4:00 p.m. to 9:15 p.m. on June 19, 2006 and from 10:00 a.m. to 7:30 p.m. on June 22, 2006. Testimony from members of the public speaking at these hearings was added to the public record. The Board heard testimony from approximately 120 apartment tenants and tenant representatives, 33 apartment owners and owner representatives and 5 public officials. On **June 27, 2006** the guidelines set forth in Order No. 38 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:

Meeting Date / Name	*Affiliation*
March 28, 2006:	Staff presentation, *2006 Mortgage Survey*
	Guest Speakers
1. Harold Shultz	Special Counsel, NYC Dept. of Housing Preservation and Development
2. Laurie Tamis	Chief of Staff, Office of Development, NYC Dept. of Housing Preservation and Development
April 7, 2006:	Staff presentation, *2006 Income and Affordability Study*
	Panel of Nonprofits that Manage Stabilized Housing
1. Carol Lamberg	Executive Director, Settlement Housing
2. Denise Scott	Managing Director, NYC Local Initiatives Support Corporation (LISC) Vice President, New York Equity Fund (NYEF)
3. Lisa Deller	Director, Asset Management, New York Equity Fund (NYEF)
4. Ismene Speliotis	Executive Director, ACORN Housing Corp
	Tenant Affordability Panel
1. Marilyn Charles	Political and Legislative Analyst, District Council 37
2. Victor Bach	Senior Housing Policy Analyst, Community Service Society
3. Brad Lander	Director, Pratt Institute Center for Community Development
4. Barbara Elstein Katz	Retired Senior Analyst, NYC Dept. of Housing Preservation and Development

April 26, 2006:	Staff presentation, *2006 Price Index of Operating Costs*
May 2, 2006:	Staff presentation, *2006 Income & Expense Study*
	<u>Apartment Owners group testimony:</u>
1. Jack Freund	Executive Vice President, Rent Stabilization Association (RSA)
2. Jimmy Silber	Vice President, Small Property Owners of New York (SPONY)
2. Patrick Siconolfi	Executive Director, Community Housing Improvement Project (CHIP)
4. Frank Anelante	Lemle & Wolfe, Inc.
5. Mark Engel	Langsam Property Services Corp
6. Christopher Athineos	Athineos Enterprises, Inc.
7. Andrew Hoffman	Clarendon Mgmt.
	<u>Apartment Tenants group testimony:</u>
1. Matthew Chachere	Northern Manhattan Improvement Corp. and NYC Coalition to End Lead Poisoning
2. Andrew Goldberg	MFY Legal Services and NYC Coalition to End Lead Poisoning
3. David Robinson	Legal Services for New York City
4. Michael McKee	Tenants PAC
5. Rosie Mendez	New York City Council Member
6. Susan Slocum	Citywide Task Force on Housing Court
7. Jenny Laurie	Met Council on Housing
8. Rick Echevarria	Bushwick Housing Improvement Project
	<u>Hotel Tenants group testimony:</u>
1. Terry Poe	Community Organizing Supervisor, West Side S.R.O. Law Project
2. Chris Schwartz	Attorney, MFY/East Side SRO Law Project
June 1, 2006:	<u>Staff presentations</u> *2006 Housing Supply Report* *Changes to the Rent Stabilized Housing Stock in NYC in 2005*
	<u>NYS Division of Housing and Community Renewal (DHCR) testimony</u>
1. Paul Roldan	Deputy Commissioner
2. David B. Cabrera	Acting General Counsel/Deputy Commissioner
3. Michael B. Rosenblatt	Deputy Counsel/Assistant Comissioner
4. Gerald Garfinkle	Bureau Chief
5. Paul Fuller	Bureau Chief

Selected Excerpts from Oral and Written Testimony from Tenants and Tenant Groups[2]

Comments from tenants and tenant groups included:

"Once again this year, every indicator before the New York City Rent Guidelines Board leads to the conclusion that landlords of rent-stabilized properties are doing quite well while tenants whose homes are in rent-stabilized apartments are struggling to make ends meet. It is time—high time—that the Rent Guidelines Board members pay attention to the question of affordability, and consider whether the rent increases you adopt are affordable to rent-stabilized tenants, whether these rent increases are burdensome to tenant households. The excessive rent hikes of the last three years have created financial hardship for many rent-stabilized tenants."

"The landlords talk about increasing costs, but never mention increasing profits and the huge increases in property values. My landlord has never appeared before this Board, because he is not suffering from any decrease in profits. As far as I know the landlords have never opened up their books. I had to submit my tax return in order to be SCRIE eligible."

"Most tenants in rent-stabilized apartments do not get income increases commensurate with rising costs, as landlords argue as the basis for their demand for rent increases…Most of us do not have the option of turning to the government to demand income increases in order to cover higher costs. We continue to pay more for everything, on incomes, which, for many of us, do not rise at all. In addition, most of us do not have the financial resources and assets that wealthy real estate owners have as their back-up 'cushion' in times of financial strain. As you know, the middle class is being driven from our wonderful City, my life-long and beloved home."

"I have watched the politicians and the landlords erode tenant protections against exorbitant rent increases for some years now. In my building, a very ordinary pre-war apartment building, I have watched rents go through the roof as tenants move out and turnovers push the rents to the $2000 a month threshold that then allows landlords to charge whatever the traffic will bear. The one-bedroom next door now rents for $3600 a month…After almost 10 and a half years in my building, I am paying $981 for a small studio apartment so it's no wonder that landlords would like to see my rent pushed to the $2000 level."

"Our people are still paying rent to live in substandard housing. How would you like to live in an apartment where your teen-aged daughter is apprehensive about taking a bath because she can hear the rats crawling through the walls? …The buildings in our neighborhood are still in as poor condition as ever—No entrance security, elevators that work sporadically, inoperable windows, stairs with rotting risers, leaks from other apartments ruining furniture and weakening the structure of the building itself. And, lest we forget—rats, mice and roaches everywhere."

"I have been fighting with my landlord for over 25 years to improve living conditions…Every time we go to court, there is a loophole discovered in favor of the landlord and the tenant always loses. Why is that? Before the board agrees on anything, someone should check all landlords and see how many violations are against their properties and determine if they are worthy of any increase or not."

Selected Excerpts from Oral and Written Testimony from Owners and Owner Groups[3]

Comments from owners and owner groups included:

"This year's guideline must factor in the inadequacy of recent rent increases and the deteriorating economics of rental housing. If the RGB again proposes a range of preliminary guidelines, the range should be equal to the range of commensurate adjustments (5-8% for one-year leases). We suggest a one-year guideline of 8%

[2] Sources: Submissions by tenant groups and testimony by tenants.
[3] Sources: Submissions by owner groups and testimony by owners

to cover last year's cost increases and provide some degree of catch-up for inadequate rent increases. The RGB should not provide a two-year lease adjustment, and instead make the second-year adjustment next year. The RGB should provide a supplemental adjustment of $15 per room for apartments renting for $600 or less which have been continuously occupied by the same tenant for 10 years or more."

"Cumulative effect of issuing guidelines below the PIOC over the last five years, the successive PIOCs, compounded, show price increases of 46%, meaning that RGB documented that price rises of this magnitude actually occurred. For the same five years, the one year guidelines issued have been, compounded, 17.8%. There is of course a gap here, but it is enormous. It is nearly 30%. You have withheld large cash flows to this industry, and you have done so over a sustained period of time. In doing so you jeopardize the health of the second largest industry in the city."

"Our expenses this past year skyrocketed. This year's increases in expenses are higher than last year, substantially higher. Operating rent regulated property in New York became more problematic this year than any other year. Fuel prices remain high, real estate taxes go up, labor increases were substantial primarily due to health benefit increases and this year marked a dramatic change in the way lead paint had to be handled in our building. Local Law #1 caused a dramatic increase in expenses which were not shown in the PIOC."

"No matter what guidelines you pass, affordability in buildings like mine will be maintained by another mechanism beyond the control of any of us—the market. Just because guidelines allow for a certain legal increase doesn't mean an owner can collect it; what owners ultimately charge is determined by the market."

"I urge the Rent Guidelines Board to set realistic rent increases which reflect today's substantially increased costs. The maximum percentages proposed by the board must be adopted to keep owners whole. We need reasonable guidelines that reflect not only this year's increases in operating costs but uncompensated cost increases from the last few years as well."

"With the constant increases in oil prices, similar increases are received from every vendor (building supply, elevator maintenance company, exterminator, etc.). Every vendor letter always begins with 'due to the unusual rise in fuel costs, we have no choice but to raise our prices.'...I believe that the rent increases set last June were completely out of sync with the rising costs of running a building properly. I trust that this year the Committee will set the rent guidelines more appropriately. In addition, I would like to recommend that the Committee consider reinstating the rent surcharge for rent stabilized apartments paying well below market value. I believe there should be a surcharge for any rent stabilized apartment paying under $700 monthly."

Selected Excerpts from Oral and Written Testimony from Public Officials[4]

Comments from public officials included:

"Data recently released by the Department of Labor has shown that living expense have risen dramatically for New York City tenants in the past year. During the same period, household incomes have remained stagnant. Therefore, the RGB's proposed ranges of increases, which could potentially be the largest in fifteen years, are unreasonable and unfair to tenants, and will result in increased financial hardship for the low- and moderate-income families who play such a vital role in this city."

"Every week my office receives dozens of calls from tenants who are unable to find affordable housing, who cannot afford to live in the places they have called home for so long, and who are alarmed by the scarcity of affordable housing in this city. There is a clear connection between the RGB increases and the loss of affordable housing as more units become subject to vacancy decontrol. We must do all we can to ensure that New York City retains its rich diversity and supports all its citizens. Low- and middle-income tenants must not be forced out of their homes, which will surely happen if the RGB approves yet another rent increase."

[4] Sources: Submissions by public officials.

“I am also dismayed that the Board in its initial vote did not support the idea of restoring home rule over New York City’s rent and eviction laws. The absence of home rule has for too long compromised the goal of providing affordable housing in New York City and usurped the rightful legislative authority of local elected officials. I, along with much of New York City’s delegation in Albany, support ending this blatant unfairness in the law. It is disturbing that the Rent Guidelines Board, a board comprised of mayoral appointees, has refused to support home rule. Repeal of the Urstadt law is crucial to New York City’s future, unless the RGB is dedicated to eliminating mixed-income neighborhood that have been the hallmark of New York City’s success.”

“We suffer from a housing affordability crisis. Due to the rent hikes of the last few years and to a shrinking number of rent controlled and stabilized apartments and an extremely tight housing market, financial hardship is widespread among rent stabilized tenants. Incomes of rent stabilized tenants went down while rents went up. Between 2002 and 2005 stabilized rents rose by over 8% while incomes for stabilized tenants went down by 8.6%.”

“The RGB has the power to adopt resolutions with respect to the legislative design and administration of the rent stabilization laws. I strongly urge the RGB to pass a resolution calling upon the City Council, the Mayor and the State Legislature to return home rule to New York City.”

“This year’s proposed increase could be the largest in 15 years. Given that the RGB has a statutory duty to consider the full economic situation of the real estate industry in determining these adjustments, this increase is unwarranted and inappropriate. The RGB’s determination of the economic situation is lopsided—the proposal has not considered the host of methods that landlords use, legally or illegally, to increase their revenues, and instead considers only the costs incurred.”

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) *2006 Mortgage Survey Report*, March 2006, (An evaluation of recent underwriting practices, financial availability and terms, and lending criteria);

(2) *2006 Income and Expense Study*, May 2006, (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) *2006 Tenant Income and Affordability Study,* April 2006, (Includes employment trends, housing court actions, changes in eligibility requirements and public benefit levels in New York City);

(4) *2006 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City,* April 2006, (Measures the price change for a market basket of goods and services which are used in the operation and maintenance of stabilized buildings);

(5) *2006 Housing Supply Report*, June 2006, (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 2005,* June 2006, (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, and are also available at the RGB offices, 51 Chambers St., Suite 202, New York, NY upon request.

2006 PRICE INDEX OF OPERATING COSTS FOR RENT STABILIZED APARTMENT HOUSES IN NEW YORK CITY

The *2006 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 2005 and April 2006.

This year, the PIOC for rent stabilized apartment buildings increased by 7.8%, 2.0 percentage points above the PIOC percentage change from the year before (5.8% in 2005). The PIOC was driven upward by increases in fuel costs (22.8%), real estate taxes (7.8%), and utility costs (7.9%). These increases were offset by more moderate growth in both insurance and labor costs of 2.5%. Increases in the remaining four cost components ranged from 4.5% to 6.5%. See Table 1 for changes in costs and prices for all rent stabilized apartment buildings from 2005-06.

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, 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 5.3% this year, which was more than the growth in the Consumer Price Index (CPI) of 3.8%.

Table 1

2005-06 Percentage Changes in Components of *the Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City*[5]			
Item	Expenditure Weights	2005-06 Percentage Δ	2005-06 Weighted Percentage Δ
Taxes	27.11%	7.79%	2.11%
Labor Costs	14.36%	2.48%	0.36
Fuel Costs	11.13%	22.78%	2.54
Utility Costs	14.99%	7.94%	1.19
Contractor Services	13.15%	5.87%	0.77
Administrative Costs	7.49%	6.48%	0.49
Insurance Costs	9.41%	2.54%	0.24
Parts & Supplies	1.66%	5.48%	0.09
Replacement Costs	0.71%	4.49%	0.03
All Items	**100.00**	**-**	**7.82**

Source: *2006 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City.*
Note: The Δ symbol means change.

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 12,000 buildings. Unlike the prior thirteen years, the staff this year was unable to obtain longitudinal data in addition to cross-sectional data. In the cross-sectional analysis, the RGB staff found the following average monthly (per unit) operating and maintenance (O&M) costs in 2005 Real Property Income and Expense (RPIE) statements for the year 2004:

Table 2

2006 Income and Expense Study Average Monthly Operating and Maintenance Costs Per Unit[6]			
	Pre '47	**Post '46**	**All Stabilized**
Total[7]	**$630**	**$732**	**$654**

Source: *2006 Income and Expense Study*, from 2005 Real Property Income and Expense filings for 2004, 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. 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 $601, rather than $654. As a result, the following relationship between operating costs and residential rental income was suggested by the Local Law 63 data:

[5] Totals may not add due to weighting and rounding.
[6] Totals may not add due to weighting and rounding.
[7] Individual categories of operating and maintenance costs were not reported in the *2006 Income and Expense Study.*

Table 2(a)

2004 Operating Cost to Rent/Income Ratio Adjusted to 1992 Audit					
	O&M Costs[8]	Rent	O&M to Rent Ratio	Income	O&M to Income Ratio
All stabilized	$601	$855	0.70	$969	0.62
Stabilized Pre'47	$579	$812	0.71	$930	0.62
Stabilized Post'46	$672	$993	0.68	$1,095	0.61

Source: *2006 Income and Expense Study*, from 2005 Real Property Income and Expense filings for 2004, NYC Department of Finance.

On May 4, 2006 the staff of the Rent Guidelines Board released the first of two memos for Board members addressing comments and queries regarding the *2006 Income and Expense Study*. The following is the text from the first memo:

The following is a breakdown of the number of distressed buildings in 2004. The largest numbers of distressed buildings are located in mid-sized, pre-47 buildings in Manhattan, the Bronx and Brooklyn, as well as small-sized, pre-47 buildings in Core Manhattan:

Pre-47 Buildings								
	Citywide	Bronx	Brooklyn	Manhattan	Queens	St. Island	Core Man	Upper Man
11-19 units	427	70	89	228	40	0	184	44
20-99 units	865	273	200	333	58	1	163	170
100+ units	20	4	4	7	5	0	7	0
All Pre-47	1312	347	293	568	103	1	354	214

Post-46 Buildings								
	Citywide	Bronx	Brooklyn	Manhattan	Queens	St. Island	Core Man	Upper Man
11-19 units	14	3	2	6	3	0	4	2
20-99 units	61	13	13	12	23	0	8	4
100+ units	33	2	5	19	7	0	19	0
All Post-46	108	18	20	37	33	0	31	6

[8] 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 0.76 (All), 0.78 (Pre-47), and 0.74 (Post-46), respectively. The unadjusted **O&M to Income** ratios would be 0.67 (All), 0.68 (Pre-47), and 0.67 (Post-46).

All Buildings								
	Citywide	Bronx	Brooklyn	Manhattan	Queens	St. Island	Core Man	Upper Man
11-19 units	441	73	91	234	43	0	188	46
20-99 units	926	286	213	345	81	1	171	174
100+ units	53	6	9	26	12	0	26	0
All	1420	365	313	605	136	1	385	220

The chart below shows median household income, in both nominal dollars and inflation-adjusted 2004 dollars, between 1990 and 2004 among rent stabilized tenants in New York City (Since the HVS is not done annually, data is not available for most years):

Rent Stabilized Household Income Medians (Source: NYC HVS, 1991-2005)						
	1990	1992	1995	1998	2001	2004
Nominal Dollars	$22,821	$20,160	$25,300	$27,000	$32,000	$32,000
2004 Dollars	$33,745	$27,525	$31,945	$31,853	$35,027	$32,000

On May 30, 2006 the staff of the Rent Guidelines Board released the second of two memos for Board members addressing comments and queries regarding the *2006 Income and Expense Study*. The following is an excerpt from the second memo:

In response to a board member's query, on the next page is a map showing whether each Community District (CD) has a proportion of distressed buildings that are above or below the citywide average of 11.6%. The map reveals that the majority of Community Districts that contain a higher proportion of distressed buildings are in the Bronx and Brooklyn.

In addition, on the following pages is a chart showing several statistics, broken down by Community District: the number and proportion of distressed buildings; the median rent and household income of rent stabilized units; the median household income of all rental units; the median contract rent-to-income ratio of rent stabilized units and the frequency of serious housing code violations, which are considered to present an immediately hazardous condition, among rental buildings in each Community District. As you will see, Community Districts with a higher than average proportion of distressed buildings generally have lower median incomes and stabilized rents, as well as greater numbers of serious housing code violations.

Distressed Bldgs/Household Income/Contract Rent-to-Income Ratios by Community District

Above 11.6% citywide average of distressed bldgs	21
Below average	31
Too few bldgs to report distressed properties (under 35)	7
Total CD's in NYC:	59

		CD	Distressed RS bldgs	Total RS bldgs	% of distressed bldgs in CD	Median Rent Stabilized Rent	Median Income RS Hshds Only	Median Income All Renter Hshds	Median Contract Rent-to-Income Ratio for RS Hshds	Serious Housing Violations Per 1000 Rental Units
Manh	Financial District (see notes 1 & 2)	1	-	22	-	$1,350	$61,000	$65,000	23.8%	2.1
	Greenwich Village (see note 2)	2	66	573	11.5%	$1,350	$61,000	$65,000	23.8%	11.3
	Lower East Side/Chinatown	3	86	718	12.0%	$780	$37,000	$30,000	25.6%	19.3
	Chelsea/Clinton (see note 2)	4	44	510	8.6%	$1,180	$46,000	$52,000	29.4%	12.0
	Midtown (see note 2)	5	10	116	8.6%	$1,180	$46,000	$52,000	29.4%	6.5
	Stuyvesant Town/Turtle Bay	6	19	437	4.3%	$1,220	$62,000	$70,000	23.9%	6.4
	Upper West Side	7	72	680	10.6%	$1,000	$57,000	$58,000	23.0%	16.3
	Upper East Side	8	88	1,048	8.4%	$1,310	$60,000	$60,600	27.4%	9.7
	Morningside Hts./Hamilton Hts.	9	56	325	17.2%	$875	$40,000	$30,000	27.2%	76.0
	Central Harlem	10	37	216	17.1%	$600	$26,000	$25,000	25.3%	58.4
	East Harlem	11	15	146	10.3%	$800	$29,000	$22,176	34.3%	43.5
	Washington Hts./Inwood	12	111	862	12.9%	$763	$31,000	$30,000	28.5%	92.9
Bronx	Mott Haven/Port Morris (see note 2)	1	26	77	33.8%	$639	$23,908	$15,140	30.3%	50.9
	Hunts Point/Longwood (see note 2)	2	41	108	38.0%	$639	$23,908	$15,140	30.3%	115.9
	Morrisania/Melrose/Claremont (see note 2)	3	22	106	20.8%	$690	$18,000	$16,280	46.4%	67.5
	Highbridge/S. Concourse	4	41	350	11.7%	$726	$20,000	$20,645	40.9%	109.8
	University Heights/Fordham	5	53	403	13.2%	$661	$21,732	$21,888	32.8%	120.9
	E. Tremont/Belmont (see note 2)	6	37	163	22.7%	$690	$18,000	$16,280	46.4%	125.6
	Kingsbridge Hts./Mosholu/Norwood	7	77	563	13.7%	$800	$25,000	$24,000	38.5%	97.5
	Riverdale/Kingsbridge	8	18	170	10.6%	$845	$37,000	$40,000	27.4%	44.9
	Soundview/Parkchester	9	16	153	10.5%	$721	$32,756	$28,000	25.8%	62.6
	Throgs Neck/Co-op City	10	12	82	14.6%	$755	$30,500	$29,000	29.0%	11.9
	Pelham Parkway	11	12	136	8.8%	$800	$35,000	$33,000	24.4%	37.5
	Williamsbridge/Baychester	12	10	111	9.0%	$800	$26,000	$30,000	35.8%	58.2

Note 1: Several Community Districts contain too few rent stabilized buildings (less than 35) to accurately report the number of distressed buildings in their districts.

Note 2: A few Community Districts in Manhattan and the Bronx do not have corresponding data solely for each of the districts in the NYC Housing and Vacancy Survey. Therefore, median income and rent-to-income data reflects the combination of two community districts: Financial District & Greenwich Village; Chelsea/Clinton & Midtown; Mott Haven/Port Morris & Hunts Point/Longwood; and Morrisania/Melrose/Claremont & E. Tremont/Belmont.

Sources: 2004 RPIE/TCIE data as reported to the NYC Dept. of Finance (Distressed Building Counts); 2005 NYC Housing and Vacancy Survey (2004 income data and 2005 rent data); Analysis by the NYU Furman Center of 2004 NYC Dept. of Housing Preservation and Development data (Housing Violations data).

Distressed Bldgs/Household Income/Contract Rent-to-Income Ratios by Community District (cont)

		CD	Distressed RS bldgs	Total RS bldgs	% of distressed bldgs in CD	Median Rent Stabilized Rent	Median Income RS Hshds Only	Median Income All Renter Hshds	Median Contract Rent-to-Income Ratio for RS Hshds	Serious Housing Violations Per 1000 Rental Units in 2004
Bklyn	Williamsburg/Greenpoint	1	19	81	23.5%	$829	$34,000	$32,000	25.7%	19.6
	Brooklyn Hts./Fort Greene	2	8	110	7.3%	$900	$40,000	$37,140	26.7%	18.2
	Bedford Stuyvesant	3	28	73	38.4%	$750	$14,000	$21,736	59.7%	97.4
	Bushwick (see note 1)	4	-	32	-	$790	$30,000	$30,000	34.0%	184.1
	East New York/Starett City	5	11	41	26.8%	$711	$25,000	$26,000	32.1%	60.6
	Park Slope/Carroll Gardens	6	6	85	7.1%	$1,079	$41,600	$45,000	25.2%	14.7
	Sunset Park	7	15	89	16.9%	$865	$40,000	$40,000	26.3%	30.7
	North Crown Hts./Prospect Hts.	8	32	174	18.4%	$700	$31,000	$30,000	26.3%	95.0
	South Crown Hts.	9	21	241	8.7%	$750	$31,000	$30,000	30.0%	70.1
	Bay Ridge	10	17	183	9.3%	$885	$37,680	$38,200	25.7%	11.6
	Bensonhurst	11	21	221	9.5%	$850	$30,000	$32,000	36.0%	12.2
	Borough Park	12	23	217	10.6%	$821	$19,100	$22,000	43.5%	25.4
	Coney Island	13	4	72	5.6%	$800	$14,961	$19,038	44.0%	11.7
	Flatbush	14	49	474	10.3%	$850	$30,000	$30,708	31.7%	67.9
	Sheepshead Bay/Gravesend	15	21	129	16.3%	$875	$28,000	$33,000	34.9%	14.6
	Brownsville/Ocean Hill	16	9	51	17.6%	$700	$32,000	$21,000	28.2%	84.2
	East Flatbush	17	23	200	11.5%	$780	$32,000	$35,000	30.5%	62.0
	Flatlands/Canarsie	18	1	37	2.7%	$800	$38,000	$32,000	21.0%	17.6
Qns	Astoria	1	35	388	9.0%	$900	$41,000	$40,000	28.0%	16.3
	Sunnyside/Woodside	2	20	219	9.1%	$900	$28,000	$32,900	41.3%	26.1
	Jackson Hts.	3	16	174	9.2%	$900	$27,800	$31,500	37.9%	31.1
	Elmhurst/Corona	4	6	115	5.2%	$900	$38,400	$36,000	28.5%	22.0
	Middle Village/Ridgewood	5	3	47	6.4%	$800	$32,540	$40,000	30.9%	19.9
	Forest Hills/Rego Park	6	7	92	7.6%	$971	$44,000	$47,000	28.0%	10.9
	Flushing/Whitestone	7	14	173	8.1%	$950	$30,000	$32,627	35.5%	16.5
	Hillcrest/Fresh Meadows	8	5	92	5.4%	$950	$42,000	$40,000	26.8%	19.5
	Kew Gardens/Woodhaven	9	9	94	9.6%	$871	$37,000	$39,368	26.3%	24.8
	Howard Beach/S. Ozone Park (see note 1)	10	-	16	-	$830	$21,000	$31,200	52.9%	25.1
	Bayside/Little Neck	11	6	45	13.3%	$1,021	$65,000	$56,000	18.9%	7.0
	Jamaica	12	6	56	10.7%	$800	$30,000	$35,000	30.0%	47.8
	Bellerose/Rosedale (see note 1)	13	0	21	0.0%	$1,019	$35,600	$35,000	28.7%	24.9
	Rockaways (see note 1)	14	9	28	32.1%	$800	$27,200	$25,000	29.1%	34.8
S.I.	North Shore	1	1	46	2.2%	$875	$42,500	$38,000	19.3%	36.8
	Mid-Island (see note 1)	2	-	9	-	$950	$30,000	$37,400	38.0%	8.9
	South Shore (see note 1)	3	-	12	-	$750	$28,000	$34,200	34.0%	6.7
	Total citywide		**1,414**	**12,212**	**11.6%**	**$844**	**$34,000**	**$33,904**	**29.3%**	**44.2**

Note 1: Several Community Districts contain too few rent stabilized buildings (less than 35) to accurately report the number of distressed buildings in their districts.

Note 2: A few Community Districts in Manhattan and the Bronx do not have corresponding data solely for each of the districts in the NYC Housing and Vacancy Survey. Therefore, median income and rent-to-income data reflects the combination of two community districts: Financial District & Greenwich Village; Chelsea/Clinton & Midtown; Mott Haven/Port Morris & Hunts Point/Longwood; and Morrisania/Melrose/Claremont & E. Tremont/Belmont.

Sources: 2004 RPIE/TCIE data as reported to the NYC Dept. of Finance (Distressed Building Counts); 2005 NYC Housing and Vacancy Survey (2004 income data and 2005 rent data); Analysis by the NYU Furman Center of 2004 NYC Dept. of Housing Preservation and Development data (Housing Violations data).

FORECASTS OF OPERATING AND MAINTENANCE PRICE INCREASES FOR 2006-07

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 2006-07 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 2005-06 and Projected 2006-07		
	Price Index 2005-06	**Projected Price Index 2006-07**
Taxes	7.8%	9.3%
Labor Costs	2.5%	2.9%
Fuel Costs	22.8%	3.7%
Utility Costs	7.9%	7.3%
Contractor Services	5.9%	4.8%
Administrative Costs	6.5%	4.8%
Insurance Costs	2.5%	7.5%
Parts & Supplies	5.5%	1.5%
Replacement Costs	4.5%	1.3%
Total (Weighted)	**7.8%**	**6.2%**

Source: *2006 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City*, which includes the 2007 PIOC Projection.

Overall, the PIOC is expected to grow by 6.2% from 2006 to 2007, with projected increases in every PIOC component. The three most volatile components, Fuel, Insurance Costs, and Utilities, are projected to rise 3.7%, 7.5%, and 7.3% respectively. Taxes are projected to increase 9.3% due to an increase in the tax rate and billable assessments for Class Two properties. Contractor Services and Administrative Costs are expected to rise at the same rate (4.8%) while Labor Costs are projected to increase by 2.9%. The table on this page shows predicted changes in PIOC components for 2007. The core PIOC is projected to rise more rapidly than the overall PIOC, by 6.6%.

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 7.8% increase in the PIOC is 6.5% for a one-year lease and 11.0% for a two-year lease. Guidelines using this formula and adding assumptions for the impact of vacancy increases on revenues when apartments experience turnover are 5.0% for one-year leases and 9.5% for two-year leases.

The second commensurate method considers the mix of lease terms while adjusting NOI upward to reflect general inflation, keeping both O&M and NOI constant. This is commonly called the "CPI-Adjusted NOI" formula. A guideline that would preserve NOI in the face of the 3.8% increase in the Consumer Price Index (see Endnote 1) and the 7.8% increase in the PIOC is 8.0% for a one-year lease and 13.5% for a two-year lease. Guidelines using this formula and adding the estimated impact of vacancy increases are 6.5% for one-year leases and 12.0% for two-year leases.[9]

The original formula that has been in use since the inception of the Rent Guidelines Board is called the "traditional" commensurate adjustment. The "traditional" commensurate yields 5.3% for a one-year lease and 7.5% for a two-year lease, given the increase in operating costs of 7.8% found in the 2006 PIOC and the projection of a 6.2% increase next year.[10]

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 operating and maintenance (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.[11]

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 both that vacancy increases are charged and collected, and 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 "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 (7.8%). 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 (6.2%). If the change in

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[9] The following assumptions were used in the computation of the commensurates: (1) the required change in landlord revenue is 67.7% of the 2006 PIOC increase of 7.8%, or 5.3%. The 67.7% 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 32.3% times the latest 12-month increase in the CPI ending February 2006 (3.83%) or 1.2%; (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 2002 Housing and Vacancy Survey; and (5) for the commensurate formulae, including a vacancy assumption, the 9.46% median increase in vacancy leases found in the rent stabilized apartments that reported a vacancy lease in the 2004 Apartment registration file from the Division of Housing and Community Renewal was used.

[10] The collectability of legally authorized adjustments is assumed. Calculating the "traditional" commensurate rent adjustment requires an assumption about next year's PIOC. In this case, the 6.2% PIOC projection for 2007 is used.

[11] 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), changes in tax law and interest rates.

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.

On May 2, 2006 the staff of the Rent Guidelines Board released a memo to Board members with additional Price Index of Operating Costs information. The text of that memo follows:

At the April 26, 2006 *Price Index of Operating Costs* presentation, one question was asked of RBG staff for which an answer was not immediately available. A detailed answer is provided in this memo.

Question 1: How many buildings in the PIOC are pre-47 and how many are post-46?

In order to calculate the number of buildings in the PIOC that are pre-47 versus post-46, we looked to the tax component portion of the PIOC, the only component of the PIOC that specifically identifies the age of the building surveyed. This year’s PIOC utilized tax data from a total of 38,265 buildings (38,220 of which contained information about construction dates). Ninety-one percent of these buildings were pre-47 (34,796) and 9% were post-46 (3,424). These buildings contained a total of 1,146,612 units, 70.8% (811,728) of which were pre-47 and 29.2% (334,884) of which were post-46. These results are virtually equal to last year’s equivalent ratios.

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 *2006 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

2006 Mortgage Survey[12]
Average Interest Rates and Points for New and Refinanced Permanent Mortgage Loans 1998-2006

New Financing of Permanent Mortgage Loans, Interest Rate and Points									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Avg. Rates	8.5%	7.8%	8.7%	8.4%	7.4%	6.2%	5.8%	5.5%	6.3%
Avg. Points	1.02	1.01	0.99	0.99	0.79	0.81	0.67	0.56	0.44
Refinancing of Permanent Mortgage Loans, Interest Rate and Points									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Avg. Rates	8.5%	7.2%	8.6%	8.0%	7.4%	6.2%	5.7%	5.5%	6.3%
Avg. Points	0.99	0.92	1.01	1.06	0.83	0.78	0.60	0.56	0.44

Source: 1998–2006 *Annual Mortgage Surveys*, RGB.

[12] 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.

On April 7, 2006, the staff of the Rent Guidelines Board prepared a memo for Board members addressing comments and queries regarding the *2006 Mortgage Survey*. The following is the text from that memo:

In response to queries about our research last year into the frequency of lending by non-traditional lenders, the following is from an endnote that appeared in the *2005 Mortgage Survey Report*:

> To determine the frequency of which non-primary lenders finance rent stabilized buildings, a random sample of 229 separate rent stabilized buildings was researched using the NYC Department of Finance's Automated City Register Information System. Among the sample, no instances of lending by non-primary lenders were found, suggesting that rent stabilized buildings owners mainly rely on primary lending institutions when financing or refinancing their buildings.

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

City-Owned Properties in Central Management
Occupied and Vacant Building Counts, Fiscal Years 1998-2005

	1998	1999	2000	2001	2002	2003	2004	2005
Occupied Bldgs.	2,232	1,905	1,730	1,203	919	610	373	235
Vacant Bldgs.	1,021	869	805	633	524	367	275	221

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

Table 6

Number of Cooperative / Condominium Plans[13]
Accepted for Filing, 1997-2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005
New Construction	34	69	50	87	145	136	190	268	361
Conversion Non-Eviction	4	40	12	9	12	14	10	16	24
Conversion Eviction	1	0	27	9	2	15	0	15	18
Rehabilitation	37	48	30	15	13	20	18	18	6
Total	**76**	**157**	**119**	**120**	**172**	**185**	**218**	**317**	**409**
Subtotal:									
HPD Sponsored Plans	21	24	26	8	2	15	0	15	18

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 1999.

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[13] 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.

Table 7

Percentage Changes in the Consumer Price Index for the New York City - Northeastern New Jersey Metropolitan Area, 1999-2006 (For "All Urban Consumers")	1999	2000	2001	2002	2003	2004	2005	2006
1st Quarter Avg.[14]	1.5%	3.0%	2.8%	2.3%	3.2%	2.8%	4.1%	3.4%
Yearly Avg.	2.0%	3.1%	2.5%	2.6%	3.1%	3.5%	3.9%	--

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.

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, both of 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 have overstated actual cost increases from 1970 to 1982. However, from 1989-90 to 2002-03, the I&E rose 91% and the adjusted PIOC also rose 91%. 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.

[14] 1st 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 (Formerly Table 14)[15]

Calculation of Operating and Maintenance Cost Ratio For Rent Stabilized Buildings from 1970 to 2005						
Period	Percent O&M[16] Increase	O&M Index	Period	Percent Rent[17] Increase	Rent Index	O&M/Rent Ratio
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

[15] Source: Price Index of Operating Costs 1970 – 2006, NYC Housing and Vacancy Surveys.

[16] 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.

[17] For explanation of the derivation of individual percentage rent increases see the Explanatory Statements of the Board's previous Orders.

Table 8 (Formerly Table 14) Continued

Calculation of Operating and Maintenance Cost Ratio For Rent Stabilized Buildings from 1970 to 2007						
Period	Percent O&M Increase	O&M Index	Period	Percent Rent Increase	Rent Index	O&M/Rent Ratio
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	393.16	0.70
4/1/97-3/31/98	0.1	276.58	10/1/98-9/30/99	3.71	407.75	0.68
4/1/98-3/31/99	0.03	276.65	10/1/99-9/30/00	3.91	423.70	0.65
4/1/99-3/31/00	7.8	298.23	10/1/00-9/30/01	5.04	445.04	0.67
4/1/00-3/31/01	8.7	324.18	10/1/01-9/30/02	4.78	466.29	0.70
4/1/01-3/31/02	-1.6	318.99	10/1/02-9/30/03	3.61	483.10	0.66
4/1/02-3/31/03	16.9	372.90	10/1/03-9/30/04	5.72	510.72	0.73
4/1/03-3/31/04	6.9	398.63	10/1/04-9/30/05	4.75	534.96	0.75
4/1/04-3/31/05	5.8	421.91	10/1/05-9/30/06	4.22[18]	557.54	0.76
4/1/05-3/31/06	7.8	454.86	10/1/06-9/30/07	4.38[19]	581.92	0.78

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 as Table 9.

[18] The **4.22%** increase in rent roll estimated for leases signed during the period 10/1/05-9/30/06 under Order 37 reflects the following: (1) Renewal guidelines are estimated to contribute a **0.827%** and **1.658%** increase in the rent roll with 30.1% of all units experiencing a one-year lease signing (2.75%) and 30.2% of all units experiencing two-year lease signings (5.5%). These figures are derived from the 2002 Housing and Vacancy Survey (HVS), Table 58, 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 figures for renewal leases (33% of stabilized households have a one-year lease and 67% have two-year leases) were reduced by the turnover rate of 9.6%, derived from the average households who moved in the 2002 HVS (95,239 is the average number of stabilized households that moved annually1999-2001) and taken as percentages of all stabilized lease signers (988,393); (2) the vacancy allowance of 18.0%, which is the median vacancy increase found in the 2001 annual DHCR rent registration data for apartments is estimated to increase overall rent rolls by **1.734%** when multiplied by the HVS turnover rate (9.6%), which estimates the percentage of rent stabilized units that will enter into vacancy leases under Order 37.

[19] The **4.38%** increase in rent roll estimated for leases signed during the period 10/1/06-9/30/07 under Order 38 reflects the following: (1) Renewal guidelines are estimated to contribute a **1.277%** and **2.186%** increase in the rent roll with 30.1% of all units experiencing a one-year lease signing (4.25%) and 30.2% of all units experiencing two-year lease signings (7.25%). These figures are derived from the 2002 Housing and Vacancy Survey (HVS), Table 58, 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 figures for renewal leases (33% of stabilized households have a one-year lease and 67% have two-year leases) were reduced by the turnover rate of 9.6%, derived from the average households who moved in the 2002 HVS (95,239 is the average number of stabilized households that moved annually1999-2001) and taken as percentages of all stabilized lease signers (988,393); (2) the median vacancy increase of 9.46% found in the 2004 annual DHCR rent registration data for apartments is estimated to increase overall rent rolls by **0.912%** when multiplied by the HVS turnover rate (9.6%), which estimates the percentage of rent stabilized units that will enter into vacancy leases under Order 38.

Table 9

Revised Calculation of Operating and Maintenance Cost Ratio for Rent Stabilized Buildings from 1989 to 2007			
	Average Monthly O & M Per d.u.[20]	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	$661 ($607)	$953	.69 (.64)
2005[21]	$699 ($642)	$1,004	.70 (.64)
2006[22]	$753 ($692)	$1,049	.72 (.66)
2007[23]	$800 ($735)	$1,094	.73 (.67)

Source: RGB *Income and Expense Studies*, 1989-2006, *Price Index of Operating Costs* 1992 - 2006, RGB Rent Index for 1992 - 2007 (see Table 8).

CHANGES IN HOUSING AFFORDABILITY

For the second year in a row, New York City's economy continued to rise from recession, with declining unemployment rates, rising wages and employment levels, and Gross City Product growing steadily from the last quarter of 2003 through the third quarter of 2005 (fourth quarter data for 2005 was not yet released as of publication). Unemployment rates decreased for the second year in a row, falling 1.2 percentage points to 5.8%, the lowest citywide level since 2000. Total employment levels in the City increased 1.4%, and the City's Gross City Product increased by 3.6% during the first three quarters of 2005, with positive growth expected during the fourth quarter. Real wages also increased by 3.7% between 2003 and 2004 (the most recent year for which there are statistics). And after rising last year, public assistance cases fell by almost 5% between fiscal years 2004 and 2005.

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[20] 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.

[21] Estimated expense figure includes 2004 expense estimate updated by the PIOC for the period from 4/1/04 through 3/31/05 (5.8%). Income includes the income estimate for 2004 updated by staff estimate based upon renewal guidelines and choice of lease terms for a period from 4/1/04 through 3/31/05 (5.31% - i.e., the 10/1/03 to 9/30/04 rent projection (5.72) times (.583), plus the 10/1/04 to 9/30/05 rent projection (4.75) times (.417)).

[22] Estimated expense figure includes 2005 expense estimate updated by the PIOC for the period from 4/1/05 through 3/31/06 (7.8%). Income includes the income estimate for 2005 updated by staff estimate based upon renewal guidelines and choice of lease terms for a period from 4/1/05 through 3/31/06 (4.53% - i.e., the 10/1/04 to 9/30/05 rent projection (4.75) times (.583), plus the 10/1/05 to 9/30/06 rent projection (4.22) times (.417)).

[23] Estimated expense figure includes 2006 expense estimate updated by the staff PIOC projection for the period from 4/1/06 through 3/31/07 (6.2%). Income includes the income estimate for 2006 updated by staff estimate based upon renewal guidelines and choice of lease terms for a period from 4/1/06 through 3/31/07 (4.28% - i.e., the 10/1/05 to 9/30/06 rent projection (4.22) times (.583), plus the 10/1/06 to 9/30/07 rent projection (4.38) times (.417)).

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 made no distinction between guidelines for buildings with different fuel and utility arrangements under Order 38. However, the Board did make a distinction in guidelines for tenants who pay to heat their apartments as a separate expense from their rent.

Table 10

Changes in Price Index of Operating Costs for Apartments in Buildings with Various Heating Arrangements, 2005-06, and Commensurate Rent Adjustment

Index Type	2005-06 Price Index Change	One-Year Rent Adjustment Commensurate With Adjusted O&M to Income Ratio of .677
All Dwelling Units	7.81%	5.29%
Pre 1947	8.39	5.68
Post 1946	7.37	4.99
Oil Used for Heating	8.12	5.50
Gas Used for Heating	7.83	5.30
Master Metered for Electricity	6.77	4.58

Note: The O&M to Income ratio is from the *2005 Income and Expense Study.*
Source: RGB's *2006 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City.*

On May 31, 2006 the staff of the Rent Guidelines Board released a memo to Board members which researched the extent to which deregulation has taken place throughout the five boroughs of New York City and the percentage of the total rent stabilized units that register each year with the Division of Housing and Community Renewal (DHCR). The following is an excerpt from that memo:

The staff determined that it was not possible to count every deregulated unit because owners were not required to report these units until 2000, resulting in an unknown universe of units that have been deregulated. In lieu of an actual count of deregulated units, the staff compared the number of owner reported stabilized units to the total number of residential units in the same subset of rent stabilized buildings. This analysis **does not** result in the total number of apartments that have been deregulated. However, it does approximate the percentage of units in regulated buildings that have been reported to be rent stabilized.[24]

Methodology

In order to perform this analysis, the RGB had to first identify buildings that contain rent stabilized units. Owners of rent stabilized apartments are required to register their buildings annually with DHCR. As a part of this annual registration, the owners are instructed to indicate the number of apartments in the building that are rent stabilized. Therefore, we used the DHCR buildings registration database to identify properties that contained stabilized units from 2004, the most recent data available to the RGB.

[24] The Rent Guidelines Board does track the number of additions and subtractions of dwelling units to and from the rent stabilized housing stock annually in our *Changes to the Rent Stabilized Housing Stock in New York City* report. Since 1994, there has been an estimated net loss of 96,120 rent stabilized units. This figure represents a floor or minimum count of the actual number of deregulated units since 1994.

The next step was to determine the total number of residential units in each building, regardless of their regulatory status. The Department of Finance's (DOF) Real Property Assessment Division (RPAD) database contains the total number of residential units in a building and is used to determine the assessed value for properties in NYC. The buildings registered in 2004 with DHCR were merged with those found in the RPAD file by matching the borough, block and lot (BBL) numbers from both files. Buildings with duplicate BBLs were identified and eliminated from the DHCR file prior to this merge. A total of 34,906 BBLs matched. Owners that did not report a count of stabilized units were eliminated. In addition, any building that owners specifically registered as a hotel, SRO, rooming house, co-op, or condo was also removed from our analysis. This resulted in a sample that contained 33,065 buildings. The end result was a file of properties that contained rent stabilized apartments, indicating the number of owner-reported stabilized apartments and the total number of residential units in each building. The percentage of reported stabilized units was determined by dividing the total stabilized unit count by the total residential unit count.

It is important to note the following when considering the findings from the aforementioned methodology. First, this analysis simply tells us the percentage of rent stabilized units as reported by owners to the DHCR. Although owners with rent stabilized apartments are required to register these units with DHCR annually, 100 percent compliance by owners is unlikely. Therefore this analysis is from a subset of rent stabilized buildings in NYC and does not include every stabilized building or unit. Second, the reported rent stabilized units include those units that are occupied, vacant and temporarily exempt. Third, the "non-stabilized units" are those **not** reported as stabilized by owners of stabilized buildings. This "non-stabilized unit" universe includes rent controlled units[25]. Thus, one cannot conclude that all these units are permanently exempt from rent stabilization. Finally, we are comparing data reported to DHCR by owners to a list of buildings maintained by the DOF. Therefore, one must realize that the data sources are different and unit counts are reported and maintained using different definitions and methods.

Findings

Citywide, 81.2% of the apartments in the subset of rent stabilized buildings analyzed were reported by owners to be rent stabilized. Stabilized buildings in the Bronx had the highest percentage of reported stabilized units at 93.1%, followed by Staten Island (90.6%), Brooklyn (88.7%), and Queens (86.8%). Stabilized buildings in Manhattan had the lowest percentage, with 67.6% of the units reported to be rent stabilized. Core Manhattan (the area south of East 96th and West 110th Streets) showed 59.0% of the units being rent stabilized. Upper Manhattan had a percentage similar to that seen in the outer boroughs, with 88.1% of the units reported by owners as rent stabilized. In addition to the borough level analysis, the percentage of rent stabilized units in each Community District (CD) was also calculated. Nearly all the Community Districts in core Manhattan had fewer then 75% of their units reported as rent stabilized. Conversely, nearly all of the CD's outside of core Manhattan saw at least 75% of the their units reported by owners as rent stabilized. For a full breakdown of rent stabilized units by borough and CD see tables A and B of this memo.

In addition to the geographical analysis, we also examined the proportion of owner reported rent stabilized units by building size and age. Large buildings had a lower percentage of reported stabilized units (63.9%) compared to buildings with fewer than 100 units (85.8%). In buildings with 100 or more units in core Manhattan, less than half (46.8%) of the units were reported to be rent stabilized. Outside core Manhattan, over 75% of the units in 100 or more unit buildings were reported as rent stabilized. In addition, newer buildings contained a lower percentage of reported rent stabilized apartments than older properties. For buildings constructed after 1946, owners reported 71.0% of these units as rent stabilized compared to 84.1% in pre-1947 buildings. For a full breakdown of rent stabilized units by building size see table A of this memo.

Staff also looked at the rent burdens of tenants who live in rent stabilized units by borough and Community District. Using data from the 2005 Housing and Vacancy Survey (HVS), we found that Manhattan had a contract rent-to-income ratio of 26.5%, while the Bronx (32.7%), Brooklyn (30.2%), and Queens (30.0%) all

[25] The 2005 Housing and Vacancy Survey reports that there are 43,317 rent controlled units in New York City.

had higher ratios. Staten Island had a rent-to-income ratio of 25.2%. All Community Districts in core Manhattan had median contract rent-to-income ratios under 30%. See table B for a breakdown of median incomes and contract rent-to-income ratios by community district.

Table A: Number of Buildings, Rent Stabilized Units, Total Residential Units and Percentage of Rental Units Reported as Rent Stabilized by Borough and Building Size

	Number of Buildings	Rent Stabilized Units	Total Residential Units	Percent of Rent Stabilized Units
Citywide	**33,065**	**700,816**	**863,252**	**81.2%**
100+ Units	1,038	115,694	181,176	63.9%
20 to 99 Units	12,328	431,650	502,690	85.9%
11 to 19 Units	5,204	65,540	77,694	84.4%
10 or Fewer Units	14,495	87,932	101,692	86.5%
Manhattan*	**11,442**	**224,338**	**332,106**	**67.6%**
100+ Units	469	49,560	99,006	50.1%
20 to 99 Units	4,710	123,262	164,334	75.0%
11 to 19 Units	2,647	30,389	39,491	77.0%
10 or Fewer Units	3,616	21,127	29,275	72.2%
Bronx	**4,717**	**164,479**	**176,601**	**93.1%**
100+ Units	126	14,023	18,271	76.8%
20 to 99 Units	3,240	136,734	143,829	95.1%
11 to 19 Units	606	8,496	8,947	95.0%
10 or Fewer Units	745	5,226	5,554	94.1%
Brooklyn	**11,347**	**190,117**	**214,263**	**88.7%**
100+ Units	171	17,928	22,605	79.3%
20 to 99 Units	2,851	110,383	124,319	88.8%
11 to 19 Units	1,370	18,620	20,416	91.2%
10 or Fewer Units	6,955	43,186	46,923	92.0%
Queens	**5,426**	**118,072**	**136,078**	**86.8%**
100+ Units	260	32,575	39,678	82.1%
20 to 99 Units	1,483	59,743	68,401	87.3%
11 to 19 Units	547	7,630	8,349	91.4%
10 or Fewer Units	3,136	18,124	19,650	92.2%
Staten Island	**133**	**3,810**	**4,204**	**90.6%**
Core Manhattan	**8,194**	**138,172**	**234,019**	**59.0%**
100+ Units	411	41,890	89,551	46.8%
20 to 99 Units	2,761	57,302	89,362	64.1%
11 to 19 Units	2,111	23,175	31,547	73.5%
10 or Fewer Units	2,911	15,805	23,559	67.1%
Upper Manhattan	**3,237**	**85,936**	**97,508**	**88.1%**
100+ Units	55	7,509	9,074	82.8%
20 to 99 Units	1,945	65,927	74,815	88.1%
11 to 19 Units	535	7,200	7,928	90.8%
10 or Fewer Units	702	5,300	5,691	93.1%

Note: The core and upper Manhattan unit and building counts do not add up to the total Manhattan counts because the community district was unknown for 11 buildings in Manhattan.
Source: 2004 State Division of Housing and Community Renewal Building Registration File and the Department of Finance 2006 Real Property Assessment Division (RPAD) file.

Table B: Percentage of Rental Units Reported as Rent Stabilized, Median Household Income, and Contract Rent-to-Income Ratio by Community District

		CD	% of Rent Stabilized Units	Median Income RS Hshds Only	Median Contract Rent-to-Income Ratio for RS Hshds
Manhattan	Financial District	1	47.3%	$61,000	23.8%
	Greenwich Village	2	55.6%	$61,000	23.8%
	Lower East Side/Chinatown	3	77.6%	$37,000	25.6%
	Chelsea/Clinton	4	68.0%	$46,000	29.4%
	Midtown	5	50.3%	$46,000	29.4%
	Stuyvesant Town/Turtle Bay	6	50.1%	$62,000	23.9%
	Upper West Side	7	61.3%	$57,000	23.0%
	Upper East Side	8	54.5%	$60,000	27.4%
	Morningside Hts./Hamilton Hts.	9	84.0%	$40,000	27.2%
	Central Harlem	10	90.9%	$26,000	25.3%
	East Harlem	11	84.2%	$29,000	34.3%
	Washington Hts./Inwood	12	89.6%	$31,000	28.5%
Bronx	Mott Haven/Port Morris	1	95.5%	$23,908	30.3%
	Hunts Point/Longwood	2	94.5%	$23,908	30.3%
	Morrisania/Melrose/Claremont	3	93.9%	$18,000	46.4%
	Highbridge/S. Concourse	4	92.6%	$20,000	40.9%
	University Heights/Fordham	5	97.2%	$21,732	32.8%
	E. Tremont/Belmont	6	95.7%	$18,000	46.4%
	Kingsbridge Hts./Mosholu/Norwood	7	96.6%	$25,000	38.5%
	Riverdale/Kingsbridge	8	77.8%	$37,000	27.4%
	Soundview/Parkchester	9	96.0%	$32,756	25.8%
	Throgs Neck/Co-op City	10	90.4%	$30,500	29.0%
	Pelham Parkway	11	91.5%	$35,000	24.4%
	Williamsbridge/Baychester	12	95.0%	$26,000	35.8%

Sources: 2004 State Division of Housing and Community Renewal Building Registration File and the Department of Finance 2006 Real Property Assessment Division (RPAD) file; 2005 Housing and Vacancy Survey (income data)

Table B: Percentage of Rental Units Reported as Rent Stabilized, Median Household Income, and Contract Rent-to-Income Ratio by Community District (Continued)

		CD	% of Rent Stabilized Units	Median Income RS Hshds Only	Median Contract Rent-to-Income Ratio for RS Hshds
Brooklyn	Williamsburg/Greenpoint	1	90.3%	$34,000	25.7%
	Brooklyn Hts./Fort Greene	2	72.9%	$40,000	26.7%
	Bedford Stuyvesant	3	93.5%	$14,000	59.7%
	Bushwick	4	95.2%	$30,000	34.0%
	East New York/Starett City	5	95.0%	$25,000	32.1%
	Park Slope/Carroll Gardens	6	75.4%	$41,600	25.2%
	Sunset Park	7	91.0%	$40,000	26.3%
	North Crown Hts./Prospect Hts.	8	88.6%	$31,000	26.3%
	South Crown Hts.	9	93.9%	$31,000	30.0%
	Bay Ridge	10	85.3%	$37,680	25.7%
	Bensonhurst	11	90.5%	$30,000	36.0%
	Borough Park	12	85.3%	$19,100	43.5%
	Coney Island	13	85.0%	$14,961	44.0%
	Flatbush	14	91.4%	$30,000	31.7%
	Sheepshead Bay/Gravesend	15	80.6%	$28,000	34.9%
	Brownsville/Ocean Hill	16	92.9%	$32,000	28.2%
	East Flatbush	17	96.8%	$32,000	30.5%
	Flatlands/Canarsie	18	87.8%	$38,000	21.0%
Queens	Astoria	1	91.4%	$41,000	28.0%
	Sunnyside/Woodside	2	87.0%	$28,000	41.3%
	Jackson Hts.	3	87.4%	$27,800	37.9%
	Elmhurst/Corona	4	92.0%	$38,400	28.5%
	Middle Village/Ridgewood	5	92.7%	$32,540	30.9%
	Forest Hills/Rego Park	6	74.2%	$44,000	28.0%
	Flushing/Whitestone	7	86.2%	$30,000	35.5%
	Hillcrest/Fresh Meadows	8	86.0%	$42,000	26.8%
	Kew Gardens/Woodhaven	9	81.3%	$37,000	26.3%
	Howard Beach/S. Ozone Park	10	83.2%	$21,000	52.9%
	Bayside/Little Neck	11	80.2%	$65,000	18.9%
	Jamaica	12	89.6%	$30,000	30.0%
	Bellerose/Rosedale	13	65.4%	$35,600	28.7%
	Rockaways	14	91.3%	$27,200	29.1%
Staten Island	North Shore	1	93.0%	$42,500	19.3%
	Mid-Island	2	92.5%	$30,000	38.0%
	South Shore	3	74.2%	$28,000	34.0%

Sources: 2004 State Division of Housing and Community Renewal Building Registration File and the Department of Finance 2006 Real Property Assessment Division (RPAD) file; 2005 Housing and Vacancy Survey (income data)

On June 8, 2006 the staff of the Rent Guidelines Board released a memo to Board members analyzing building violation data from the Department of Housing Preservation and Development. The following is the text from that memo:

As per the Board's request, the following is an analysis of building violation data from the NYC Dept. of Housing Preservation and Development (HPD). The file provided from HPD includes the total number of Class "A," "B," and "C" violations that were open as of December 2005.

Class "A" violations are considered the least severe, and include violations such as defective gutters, proper notice of smoke detector requirements, proper notice of superintendent contact information, and filing of building registration with HPD. Class "B" violations are more serious than Class "A" and include such violations as broken smoke detectors, unlawful cooking spaces, improper collection of garbage, and illegal occupancy of a basement. Class "C" violations are the most severe, and are the focus of the research presented in this memo. These violations are considered to present an immediately hazardous condition. Class "C" violations include defective fire escapes, inadequate heat or hot water, rodent problems, and lead-based paint hazards.

A file of more than 800,000 records obtained from HPD was matched to DHCR 2004 building registration data, a file of 42,285 records. A total of 36,830 records from the DHCR file corresponded accurately to HPD data, a match on more than 87% of DHCR records. More than 20,000 of these buildings had either an "A," "B," or "C" violation open as of December 2005 (more than 56% of buildings), while over 40% of buildings had no violations presently open as of that date. Proportionally, the Bronx has had the most violations presently open, with 77.4% of buildings having at least one open "A," "B," and/or "C" violation, compared to lows in Queens and Staten Island of 42.3% and 43.9% respectively, while Brooklyn and Manhattan were each above 50%. The Bronx also had the highest number of violations issued of the boroughs, a median of 20 "A," "B," and/or "C" violations, double that of the citywide median of 10. In addition, 60.6% of Bronx buildings have open "C" violations (the most severe violations), with a median of 6 violations per building, double that of the citywide median of 3. A summary of the "A," "B," and "C" violations open as of December 2005 follows in **Table A**.

Note that the analysis only includes buildings that have received at least one violation in the relevant category (i.e. in some cases more than half of buildings in the borough have been excluded from the mean and median). It is also important to note that the open violations data analyzed in this memo should be considered a ceiling of violations that are currently open. An unknown percentage of these violations have been corrected but not reported as closed to HPD by owners.

Table A

Bldgs. With Violations Presently Open, by Violation Type & Borough
(Buildings With 1 or More Violations)

Borough		Buildings in Sample	Class A Violations (% of Bldgs. In Sample)	Class B Violations (% of Bldgs. In Sample)	Class C Violations (% of Bldgs. In Sample)	A, B, and/or C Violations (% of Bldgs. In Sample)
Bronx	# of Bldgs.	5,025	2,852 (56.8%)	3,587 (71.4%)	3,046 (60.6%)	3,890 (77.4%)
	Mean Violations		15.36	30.70	12.97	49.72
	Median Violations		7	13	6	20
Brooklyn	# of Bldgs.	12,619	4,700 (37.2%)	6,452 (51.1%)	4,657 (36.9%)	7,081 (56.1%)
	Mean Violations		8.16	19.61	7.17	28.07
	Median Violations		4	8	3	11
Manhattan	# of Bldgs.	12,788	4,352 (34.0%)	6,217 (48.6%)	4,275 (33.4%)	6,999 (54.7%)
	Mean Violations		8.82	15.45	6.88	23.42
	Median Violations		4	5	3	7
Queens	# of Bldgs.	6,250	1,582 (25.3%)	2,370 (37.9%)	1,483 (23.7%)	2,646 (42.3%)
	Mean Violations		5.75	13.95	4.67	18.66
	Median Violations		3	6	3	8
Staten Is.	# of Bldgs.	148	48 (32.4%)	57 (38.5%)	32 (21.6%)	65 (43.9%)
	Mean Violations		5.35	11.25	3.50	14.49
	Median Violations		3	6	3	7
Citywide	*# of Bldgs.*	*36,830*	*13,534 (36.7%)*	*18,683 (50.7%)*	*13,493 (36.6%)*	*20,681 (56.2%)*
	Mean Violations		*9.60*	*19.56*	*8.10*	*29.24*
	Median Violations		*4*	*7*	*3*	*10*

In response to a direct inquiry from the tenant members on the Board, the data was also analyzed by the number of violations per unit. **Table B** presents the number of buildings per borough that have at least three "B" or "C" violations per unit open as of December 2005, as well as the number of buildings with three or more "C" violations per unit.

Table B

Bldgs. With 3 or More B or C Violations per Unit Presently Open, by Violation Type & Borough

Borough	Buildings in Sample	3 or More B or C Violations per Unit (% of Bldgs. In Sample)	3 or More C Violations per Unit (% of Bldgs. In Sample)
Bronx	5,025	433 (8.6%)	46 (0.9%)
Brooklyn	12,619	998 (7.9%)	152 (1.2%)
Manhattan	12,788	452 (3.5%)	36 (0.3%)
Queens	6,250	171 (2.7%)	10 (0.2%)
Staten Island	148	5 (3.4%)	0 (0.0%)
Citywide	***36,830***	***2,059 (5.6%)***	***244 (0.7%)***

Because the total number of violations in a borough does not take into account the size of the buildings, the data from HPD was also analyzed by the reported number of units in the building (as reported by HPD). Again, the data is analyzed using only those buildings with at least one violation open as of December 2005, and is broken out into eight separate categories of unit size. A summary, by borough, for presently open Class "C" violations follows in **Table C**.

Table C
Mean/Median Class C Violations <u>Presently Open</u> (Buildings With 1 or More Violations)

Borough	No. of Apts. In Bldg.	Frequency	Mean Violations	Median Violations
Bronx	1-5 Apts.	1	2.00	2
	6-10 Apts.	281	7.79	4
	11-20 Apts.	413	9.24	5
	21-40 Apts.	920	13.40	6
	41-75 Apts.	1,154	14.18	7
	76-100 Apts.	170	15.58	7
	101-150 Apts.	76	18.36	5
	151-1000 Apts.	30	25.07	10
	Total	***3,045***	***12.97***	***6***
Brooklyn	1-5 Apts.	53	2.98	1
	6-10 Apts.	1,997	6.30	3
	11-20 Apts.	799	7.48	4
	21-40 Apts.	758	7.79	4
	41-75 Apts.	725	8.05	4
	76-100 Apts.	193	8.10	4
	101-150 Apts.	95	10.60	5
	151-1000 Apts.	33	7.15	4
	Total	***4,653***	***7.15***	***3***
Manhattan	1-5 Apts.	57	2.83	2
	6-10 Apts.	795	4.47	2
	11-20 Apts.	1,214	5.36	2
	21-40 Apts.	1,204	8.14	4
	41-75 Apts.	687	10.58	5
	76-100 Apts.	126	9.80	4
	101-150 Apts.	93	5.31	2
	151-1000 Apts.	93	3.47	2
	Total	***4,269***	***6.87***	***3***
Queens	1-5 Apts.	28	2.07	1
	6-10 Apts.	419	3.59	2
	11-20 Apts.	201	5.13	3
	21-40 Apts.	241	4.82	3
	41-75 Apts.	302	5.83	3
	76-100 Apts.	133	5.59	2
	101-150 Apts.	105	5.21	2
	151-1000 Apts.	53	4.15	3
	Total	***1,482***	***4.74***	***2***
Staten Island	1-5 Apts.	4	1.75	1.5
	6-10 Apts.	3	4.00	5
	11-20 Apts.	5	3.60	2
	21-40 Apts.	6	4.67	4
	41-75 Apts.	5	4.60	5
	76-100 Apts.	1	3.00	3
	101-150 Apts.	7	2.71	3
	151-1000 Apts.	1	7.00	7
	Total	***32***	***3.66***	***3***
Citywide	*1-5 Apts.*	143	*2.70*	1
	6-10 Apts.	3,495	*5.68*	3
	11-20 Apts.	2,632	*6.59*	3
	21-40 Apts.	3,129	*9.34*	4
	41-75 Apts.	2,873	*10.88*	5
	76-100 Apts.	623	*9.94*	4
	101-150 Apts.	376	*9.21*	3
	151-1000 Apts.	210	*7.32*	3
	Total	***13,481***	***8.10***	***3***

Violations can also be analyzed by the reported age of the buildings. As expected, in many cases the older the building, the more likely it has a higher number of "C" violations. Citywide, buildings constructed between 1915 and 1929 have a median of five "C" violations while buildings constructed between 1975 and 2005 have a median of two. A summary of "C" violations open as of December 2005, by age and borough, is presented in **Table D**.

Table D

Mean/Median Class C Violations Presently Open (Buildings With 1 or More Violations)

Borough	Year Bldg. Built	Frequency	Mean Violations	Median Violations
Bronx	1800-1899	1	1	1
	1900-1914	499	11.89	6
	1915-1929	1,657	14.76	7
	1930-1944	314	12.56	7
	1945-1959	88	7.68	3
	1960-1974	88	5.65	4
	1975-1989	2	2.00	2
	1990-2005	15	2.33	2
	Total	***2,664***	***13.34***	***6***
Brooklyn	1800-1899	20	5.15	3
	1900-1914	709	7.76	4
	1915-1929	1,318	7.87	4
	1930-1944	353	6.71	3
	1945-1959	97	6.10	4
	1960-1974	125	4.67	3
	1975-1989	1	17.00	17
	1990-2005	5	4.20	1
	Total	***2,628***	***7.44***	***3***
Manhattan	1800-1899	10	5.00	2
	1900-1914	1,496	6.59	3
	1915-1929	1,092	9.32	4
	1930-1944	111	3.23	2
	1945-1959	48	2.77	2
	1960-1974	55	2.71	1
	1975-1989	6	1.33	1
	1990-2005	10	3.40	1.5
	Total	***2,828***	***7.35***	***3***
Queens	1800-1899	1	7.00	7
	1900-1914	33	5.36	2
	1915-1929	496	5.17	3
	1930-1944	179	4.78	2
	1945-1959	178	4.06	2
	1960-1974	151	4.55	2
	1975-1989	11	2.64	2
	1990-2005	10	1.70	1
	Total	***1,059***	***4.78***	**2**
Staten Island	1800-1899	0	---	---
	1900-1914	2	8.50	8.5
	1915-1929	5	3.40	3
	1930-1944	7	2.43	1
	1945-1959	2	3.00	3
	1960-1974	8	3.75	3
	1975-1989	2	1.50	1.5
	1990-2005	1	4.00	4
	Total	***27***	***3.48***	***3***
Citywide	*1800-1899*	32	5.03	2
	1900-1914	2,739	7.85	3
	1915-1929	4,568	10.42	5
	1930-1944	964	7.83	3
	1945-1959	413	5.16	3
	1960-1974	427	4.56	3
	1975-1989	22	2.77	2
	1990-2005	41	2.71	2
	Total	***9,206***	***8.80***	***4***

Class “C” building violations were also grouped by the total number of violations in the buildings. Grouping in this manner shows that citywide 63.4% of buildings had no open Class “C” violations as of December of 2005, while 23.1% of buildings had been cited with 1-5 violations. Less than 1% of buildings (253 of 36,830 buildings) had more than 50 violations opened as of last December. The lowest percentage of zero violation buildings was in the Bronx, where 39.4% of buildings had no open “C” violations during December. A summary of “C” violations grouped by total number of violations is presented in **Table E**.

Table E

Buildings With "C" Violations <u>Presently Open</u>, by Borough

Borough	No. of Violations	Frequency	Percent of Total	Borough	No. of Violations	Frequency	Percent of Total
Bronx	0 Violations	1,979	39.4%	Queens	0 Violations	4,767	76.3%
	1-5 Violations	1,412	28.1%		1-5 Violations	1,120	17.9%
	6-10 Violations	560	11.1%		6-10 Violations	215	3.4%
	11-20 Violations	515	10.2%		11-20 Violations	99	1.6%
	21-50 Violations	420	8.4%		21-50 Violations	45	0.7%
	51-100 Violations	113	2.2%		51-100 Violations	4	0.1%
	101-150 Violations	19	0.4%		101-150 Violations	0	0%
	151-200 Violations	7	0.1%		151-200 Violations	0	0%
	201-231 Violations	0	0%		201-231 Violations	0	0%
	Total	**5,025**	**100%**		***Total***	**6,250**	**100%**
Brooklyn	0 Violations	7,962	63.1%	Staten Island	0 Violations	116	78.4%
	1-5 Violations	2,998	23.8%		1-5 Violations	25	16.9%
	6-10 Violations	771	6.1%		6-10 Violations	6	4.1%
	11-20 Violations	515	4.1%		11-20 Violations	1	0.7%
	21-50 Violations	317	2.5%		21-50 Violations	0	0%
	51-100 Violations	54	0.4%		51-100 Violations	0	0%
	101-150 Violations	2	0%		101-150 Violations	0	0%
	151-200 Violations	0	0%		151-200 Violations	0	0%
	201-231 Violations	0	0%		201-231 Violations	0	0%
	Total	**12,619**	**100%**		***Total***	**148**	**100%**
Manhattan	0 Violations	8,513	66.6%	*Citywide*	*0 Violations*	*23,337*	*63.4%*
	1-5 Violations	2,955	23.1%		*1-5 Violations*	*8,510*	*23.1%*
	6-10 Violations	564	4.4%		*6-10 Violations*	*2,116*	*5.7%*
	11-20 Violations	425	3.3%		*11-20 Violations*	*1,555*	*4.2%*
	21-50 Violations	277	2.2%		*21-50 Violations*	*1,059*	*2.9%*
	51-100 Violations	45	0.4%		*51-100 Violations*	*216*	*0.6%*
	101-150 Violations	6	0%		*101-150 Violations*	*27*	*0.1%*
	151-200 Violations	2	0%		*151-200 Violations*	*9*	*0%*
	201-231 Violations	1	0%		*201-231 Violations*	*1*	*0%*
	Total	**12,788**	**100%**		***Total***	***36,830***	***100%***

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 6.4%, 1.4 percentage points lower than the increase for apartments. This difference is explained by the fact that Labor Costs for lofts increased by 1.9%, compared to 2.5% for apartments, and that Attorney fees, which rose 2.0%, are much more important for lofts than for apartments. In addition, the increase in the Utilities component was 6.5% for lofts versus 7.9% for apartments. These three disparities placed more downward pressure on the Loft Index.

This year's guidelines for lofts are: **3.75%** for a one-year lease and **6.75%** for a two-year lease.

Table 11

Changes in the Price Index of Operating Costs for Lofts from 2005-06	
	Loft O & M Price Index Change
All Buildings	7.5%

Source: *2006 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) 50% 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 50% 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 82 of the Laws of 2003.

Supplemental Adjustment

There shall be **no supplemental adjustment** for apartments renting below any specified amount for renewal leases.

There shall be **no equalization allowance** for apartments continuously occupied for a specified period of time for renewal leases.

Sublet Allowance

The increase landlords are allowed to charge under Order 38 when a rent stabilized apartment is sublet by the primary tenant to another tenant on or after October 1, 2006 and on or before September 30, 2007 shall be **10%**.

Votes

The votes of the Board on the adopted motion pertaining to the provisions of Order #38 were as follows:

	Yes	No	Abstentions
Guidelines for Apartment Order #38	5	4	-

Dated: June 28, 2006
Filed with the City Clerk: June 30, 2006

Marvin Markus, Chair
Rent Guidelines Board

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