

# The Rent Guidelines Board 2001 Price Index of Operating Costs

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April 24, 2001

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## Introduction

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

goods and services in the market basket was updated in 1983 by means of a study of expenditure patterns of owners of rent stabilized apartment buildings.

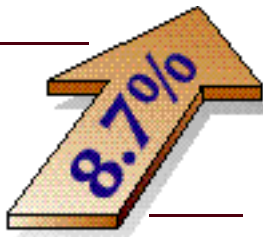
The PIOC was maintained by the Bureau of Labor

Statistics (BLS) from 1970 to 1981. From 1982 to 1990, the PIOC was prepared by private consulting firms. In 1991, the Rent Guidelines Board (RGB) staff's growing expertise and familiarity made it possible to move the PIOC "in house."

The PIOC measures changes in the cost of purchasing a specified set of goods and services, which must remain constant both in terms of quantity and quality from one year to the next. The need to exclude the effect of any alterations in the quality of services provided requires that very careful specifications of the goods and services priced must be developed and applied. The pricing specifications must permit the measurement of changes in prices paid for carefully defined pricing units with specific terms of sale, such as cash, volume or trade discounts. For certain items, such as real estate taxes, the price paid is determined administratively, and the information is collected from City records.

Changes in the overall PIOC result from changes in the prices of individual goods and services, each weighted by its relative importance as a percentage of total operating and maintenance expenditures. Because the market basket is fixed in the sense that the quantities of goods and services of each kind remain constant, the relative importance of the various goods and services will change when their prices increase either more quickly or more slowly than average. Thus, the relative importance, or weight, attached to each good or service changes from year to year to reflect the different rates of price change among the various index items. The expenditure weights used in the construction of the 2001 Price Index are based upon the 1983 Expenditure Study and revised on the basis of the 1982-2000 measured price changes and a survey of heating utilization patterns used in rent stabilized buildings this year.

*The Price Index of Operating Costs for Rent Stabilized Apartment Buildings rose ...*



## WHAT'S NEW

- ✓ The Price Index of Operating Costs for Rent Stabilized Apartment Buildings (PIOC) rose 8.7% this year.
- ✓ Costs in pre-war buildings rose 10.1%.
- ✓ The PIOC was higher than projected mainly because of sharp and unanticipated increases in fuel and natural gas costs.
- ✓ The "core" PIOC, which excludes the erratic changes in fuel oil, natural gas, and electricity costs, is useful for analyzing inflationary trends. The core rose by 4.0% this year.
- ✓ Real estate taxes rose 5.5% due mainly to the strong rise in assessments.
- ✓ Labor costs rose 4.0%, an increase from last year's growth of 2.6%.
- ✓ The Utilities component increased by 15.0% due to sharp increases in natural gas costs.
- ✓ Insurance costs grew by 4.9%, a significant rise from the 0.7% increase found last year. Rate increases fueled much of the growth in insurance costs.
- ✓ The Price Index for Apartments is projected to increase 2.1% next year.

The importance of each index component is shown by its "expenditure weight" (see Appendix 2). The measured 2000-01 price changes in each index component are also presented in this table. The expenditure weights and the 2000-01 price changes are then combined to provide the overall change in the PIOC over the period from 2000-01.

The 1983 Expenditure Study provides a basis for calculating separate sets of expenditure weights for buildings constructed before 1947 and for buildings constructed in 1947 or later. Typically, buildings constructed before 1947 incur a lower percentage of operating and maintenance costs for property taxes, but their fuel costs represent a significantly higher percentage of total operating and maintenance costs than do the fuel costs of the post-1946 buildings. The differences between the pre-1947 and post-1946 buildings are submerged when their expenditure patterns are combined in the construction of the overall PIOC. It is nevertheless possible to develop separate price indices for the pre-1947 and post-1946 buildings. In addition, there are separate price indices for gas-heated, oil-heated and master-metered buildings. Although the expenditure weights for all rent stabilized buildings and for each of the five subcategories of buildings differ, the price changes are the same for each of the six indices. (See Appendix 3)

The PIOC consists of nine cost components, each designed to measure changes in a category of costs such as fuel, insurance, utilities, etc. The methodology for each component is described in the final section of this report.

## Summary

This year, the PIOC for rent stabilized apartment buildings rose by 8.7%, nearly a percentage point higher than the year before (7.8% in 2000). The increases in the 2000 and 2001 PIOC's are the highest since 1990, following five out of six years when PIOC-measured prices and costs increased by modest rates. Over the past year, increases in costs occurred in all PIOC components. Among the seven components unaffected by energy prices, these cost increases ranged from 0.8% for parts and supplies to 5.5% for real estate taxes. Of the remaining two components, utility costs increased by 15.0% and fuel costs increased by 33.3%. The "core" PIOC, which excludes the erratic changes in fuel oil, natural gas and electricity costs, is useful for analyzing long-term inflationary trends. The core PIOC rose by 4.0% this year, somewhat outpacing the Consumer Price Index (CPI), which grew by 3.1% over about the same period.<sup>1</sup>

## Price Index Components

### Taxes



The Tax component of the PIOC is based entirely on real estate taxes. The change in taxes is estimated by comparing aggregate taxes levied on rent stabilized apartment houses in FY 2000 and FY 2001. The tax data was obtained from the New York City Department of Finance.

### TERMS AND DEFINITIONS

**Price Index** - the measure of price change in a market basket of goods and services.

**Component** - categories of goods and services, such as Labor Costs or Taxes, that comprise the market basket of a price index.

**Item** - representative individual goods and services within a component, such as Pushbroom, Plumbing, Faucet or Roof Repair.

**Price Relative** - the ratio of current and prior year's prices.

**Expenditure Weight** - the relative importance of the change in costs of different goods and services.

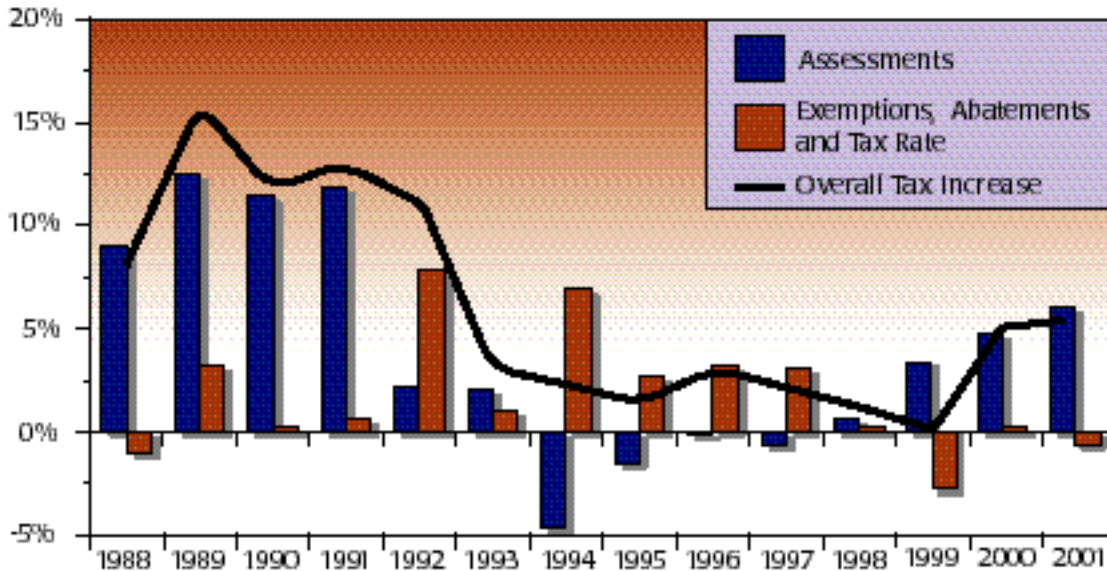
**Specification** - defined pricing units with specific terms of sale, such as cash, volume or trade discounts.

### CHANGE IN COSTS FOR RENT STABILIZED APARTMENT BUILDINGS, APRIL 2000 TO APRIL 2001

Taxes	5.5%
Labor Costs	4.0%
Fuel Costs	33.3%
Utilities Costs	15.0%
Contractor Services	3.6%
Administrative Costs	4.1%
Insurance Costs	4.9%
Parts & Supplies	0.8%
Replacement Costs	1.0%
<b>All Costs</b>	<b>8.7%</b>

## Rising Property Values Increase Billable Assessments for the Fourth Consecutive Year

(Percent Change in Taxes due to Assessments and Exemptions/Abatements/Tax Rate)



Source: New York City Department of Finance

Real estate taxes for rent stabilized buildings rose this year by 5.5%. The change in taxes was primarily due to a strong rise in assessments. The tax rate for Class Two properties declined slightly this year after an increase the year before. Changes in tax exemptions and abatements had little impact on taxes this year.

**Tax Levy** — The total tax levy for all properties in the City (commercial and residential) increased by 4.3% from 2000 to 2001, mainly due to rising assessments. The Class Two property levy rose more rapidly than the City as a whole, by 5.5%. The distribution of the levy among property classes tends to shift from year to year. In recent years, more of the tax burden has generally fallen on Class Two properties, the category that contains the vast majority of rent stabilized buildings. In FY 2001, the levy share for Class Two properties increased by 1.2% to 34.5% of the total tax burden. This is a smaller rise than in FY 2000 when the Class Two levy share increased by 2.6%.

**Tax Rate** — In 1998, the tax rate for Class Two properties was essentially unchanged, falling slightly by 0.1%, and in 1999, the tax rate for Class Two fell more rapidly, by 2.8%. Last year, the tax rate for Class Two increased by 1.0%. In FY 2001,

the tax rate for Class Two properties decreased slightly, by 0.04%, to 10.847.

**Assessments** — The assessed valuations of rent stabilized buildings rose dramatically from the late 1980's through 1991, increasing 8% or more each year (see the above graph). In 1992 and 1993, the increase in valuations for stabilized buildings slowed to 2% per year. The impact of the recession was finally reflected in tax bills the following two years—valuations dropped 4.7% in FY 1994 and 1.3% in FY 1995. Smaller decreases occurred in the next two years.

For the fourth consecutive year, assessments of rent stabilized buildings increased in FY 2001. Across the City, assessments rose by 5.9%, almost a full percentage point higher than last year's rise of 5.0%. All five boroughs showed increases in assessments, ranging from 2.8% in Staten Island to a rise of 6.5% in Manhattan in FY 2001. Assessments rose in Queens by 4.6%, by 5.0% in Brooklyn and by 5.7% in the Bronx.

**Abatements and Exemptions** — This year, the number of buildings with abatements declined by 8%. The average benefit value of the typical abatement stayed roughly the same from FY 2000 to FY 2001.

Many of the buildings that were renovated during the 1970's and 80's in New York City benefited from tax abatements. In recent years, many of these abatements have been expiring. The number of tax abatements declined this year in every borough except Staten Island, which retained the same number of abatements as in the previous year. The net impact of the decrease in the number of abatements and the minimal change in the average abatement value in FY 2001 is a small increase in the tax liability for rent stabilized buildings as a whole, by approximately 0.3%.

In FY 2001, both the number and value of average tax exemptions increased. Nearly 4% more rent stabilized buildings benefited from tax exemptions than in the year before, and the average value of exemptions increased by almost 6% this year. The increase in tax exemptions had a larger impact on the real estate tax component of the PIOC than the change in abatements. For all stabilized properties, the rising number and value of tax exemptions reduced owners' tax bills by about 0.7%. (See Appendices 5 and 6)

**Labor**



The price index measure of labor costs includes union and non-union salaries and benefits, in addition to Social Security and unemployment insurance. The cost of unionized labor comprises more than two-thirds of the Labor component. The entire Labor component comprises almost 17% of the overall price index

Labor costs rose 4.0%, an increase from last year's growth of 2.6%. This is the largest increase since 1995 when the labor component rose 4.1%. This year, labor costs increased more rapidly due in large part to non-union labor wages, which increased by 5.2% compared to last year's growth of 3.8%. In addition, employers saw a significant increase in

the cost of union benefit contributions of 4.6% over last year's growth of just 0.05%. Conversely, unionized wages as a group increased by 3.1% this year offsetting the faster growth in non-union pay and union benefits.

**Fuel**

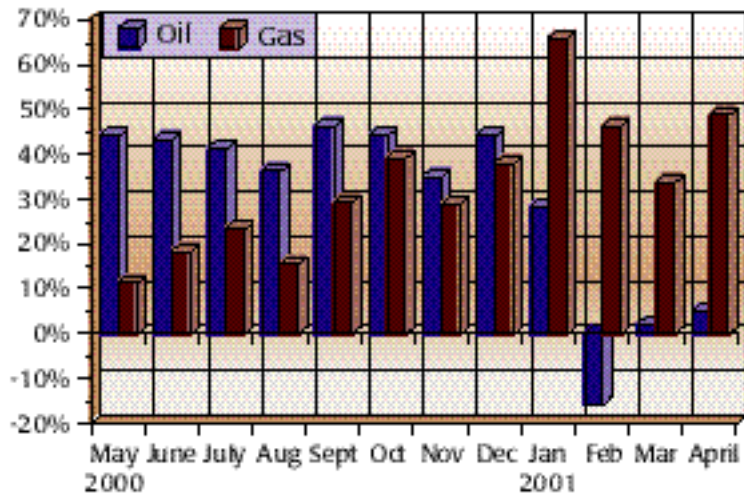


In a continuation of last year's rapid growth, the cost of fuel oil rose by 33.3% this year. Although this year's increase was dramatic, costs did not rise as much as in 2000 when fuel prices rose 54.8%. The cost increases for #2 fuel oil, #4, and #6 were 32%, 38% and 35% respectively.

Although not as high as the record-breaking growth witnessed in the first quarter of the year, fuel oil prices grew rapidly from May to December 2000. Monthly fuel price increases over that period were over 35% higher than the comparable period the year before. During the first quarter of 2001, fuel costs increased strongly in January but declined in February. Relatively small increases occurred in both March and April of 2001.

**Gas Prices Increased Sharply Throughout 2000-01**

(Price of #2, #4 and #6 Fuel Oil and Gas Used for Heating by Month, 2000-2001, Compared to Previous Year)



Source: 2000 and 2001 Price Index of Operating Costs Vendor Surveys

The effect of the increase in demand due to this year's colder winter raised the cost of heating with oil by 12.5%. The remainder of the 33.3% rise in fuel costs was due to the low supply of crude oil and the resulting price increases.<sup>2</sup> The graph on the previous page shows increases in combined fuel costs by month as compared to the prior year (i.e. Feb. 2000 to Feb. 2001).

## Utilities



The Utilities component consists primarily of electricity, natural gas, and water and sewer charges. Telephone and steam costs are a small part of the Utility component.

In the case of most Utilities items, changes in costs are measured using the PIOC specifications (i.e. the quantity of electricity, steam, etc. being purchased) and the changes in rate schedules. Water and sewer costs are based on billings obtained from the City's Department of Environmental Protection (DEP).

This year, Utilities increased by 15.0%, led by a sharp increase in gas costs that rose 57.4%. The increase in gas costs was driven primarily by a shortage in supply that resulted in the rise in price of natural gas. Steep wholesale gas prices to Con Edison and Keyspan led to consistently high fuel adjustments throughout the heating season. This resulted in high gas rates to owners of multi-family buildings that peaked in January 2001. Colder weather during the heating season raised the cost of heating with gas by 11.5%. The remainder of the increase in the cost of gas for heating was due to the change in rates. (See graph on previous page)

The double-digit increases in gas and steam prices were offset by low increases in water and sewer costs (1.0%) and electricity costs (1.9%). Water and sewer costs account for about 57% of the Utilities component.

For the third year, the PIOC has measured frontage and metered costs separately. The frontage rate set by the NYC Water Board for FY 2001 was 1.0%.<sup>3</sup> Water and sewer charges for rent stabilized buildings that were billed on a frontage basis in both FY 2000 and FY 2001 increased by the Water Board rate. Charges increased by 1.06% for

buildings billed on a metered or mixed-billing basis (buildings with metered bills in calendar years 1999 and 2000 or buildings that switched from frontage to metered billing during the two-year period). This is a change from last year's finding, in which buildings with metered or mixed billing increased less than the Water Board's rate.

This year, a smaller share of buildings moved from frontage to metered billing (2.5%), a decline from previous studies. From 1998 to 1999, 6% of the sample had made the switch, up from 3% in 1997 to 1998. This group of buildings experienced an 8% decrease in water/sewer costs, a slightly smaller decrease than in the 1998-1999 time period. Metered bills are calculated based on actual consumption, unlike frontage bills, which are calculated based on building size and the number of units and fixtures. While customers that changed billing formats have overall experienced an initial reduction in their bills in the last three RGB studies, once on metered billing, changes in consumption make water/sewer bills less predictable.

As in the previous two years, this year's study found high variability in the change in owners' costs in buildings billed on a metered basis. Since metered bills reflect actual consumption, which fluctuates with occupancy changes and leaks, costs can vary greatly from year to year, especially in small buildings that are most sensitive to these changes. Of the buildings with metered bills in both 1999 and 2000, slightly less than half experienced a decrease in their water/sewer costs and three percent had increases that were below the Water Board rate of 1%. This indicates a decrease in consumption and a saving for almost half of property owners.

The combined increase in water and sewer costs for all rent stabilized buildings was slightly more than one percent (1.01%).

## Contractor Services



The Contractor Services component rose 3.6%, one full percentage point lower than last year's increase of 4.6%. The most important items in this component by weight are repainting and plumbing

prices, which comprise two-thirds of the Contractor Services component. This year, Contractor Services prices grew less quickly due in large part to repainting prices that increased by 2.8% compared to last year's growth of 6.2%. However, plumbing prices rose 4.1% outpacing last year's growth of 3.4%. All of the other items had price relatives between 0.8% to 9.2%.

Painters cited that the reason for the smaller price increase was due to fewer customers than the prior year resulting in more competition between painting contractors. Several plumbers reported that there was an increase in the cost of labor and materials so they charged more for their services than they did in the previous year.

Like last year, every item in the Contractor Services component experienced some rise in prices. Roof repair showed the highest increase (9.2%) of any item in this component due to the increase in the price of oil-based materials used to fix roofs. Floor maintenance had the smallest increase of 1.1%.

### Administrative Costs



The Administrative Costs component rose 4.1%, a slight increase over last's year growth of 4.0%. Fees paid to management companies, accountants, and attorneys make up nearly this entire component.

A large portion of the growth in the Administrative Costs component can be attributed to a rise in management company fees (4.5%) which comprise two-thirds of this component. Management fees are often tied to apartment buildings' rental income and are affected by changes in rents and vacancies. This year's growth is higher than last year's (4.1%), indicating that management companies continue to see increased rents and fewer vacancies in the buildings they manage which was reported in last year's PIOC.

Attorneys' fees increased 1.6%, which is lower than the prior year's rise of 3.3%. The cost associated with accounting rose 5.0% in 2001, faster than last year's rate (4.3%). Attorneys cited

increases in court fees and an increase in overhead costs as reasons for charging a higher rate to their clients, while accountants claimed that increases in inflation, commercial rents and computer costs led to higher rates.

As reported in the 2000 PIOC, the cost of skilled contractors had increased faster than that of their counterparts, professionals (i.e. attorneys, accountants and management companies), for the past two years. In 2001 this trend reversed, with the increase in cost of professionals outpacing the growth in skilled contractors costs by 0.5% percentage points. This was a return to the trend that occurred throughout much of 1990s when the Administrative Costs component consistently grew at a faster pace than the cost for skilled contractors.

### Insurance



Insurance costs rose this year by 4.9%. This was a significant increase compared to the 0.7% growth seen in 2000 PIOC and the highest increase in the cost of insurance since 1996.

Over 60% of the building owner survey responses indicated an increase in insurance costs. Just less than one-fourth of the responses reported no change from the previous year while only 15% showed a decrease in costs. Rate hikes fueled insurance cost growth, with roughly half of this year's respondents claiming higher rates, as opposed to only 14% that reported rate declines.

Roughly 19% of the building owner responses reported a change in insurance carriers for the surveyed building in the past year. This percentage is up from 17% in 2000, 11% in 1999 and 10% in 1998. Last year, 46% of the owners who switched carriers benefited from this change with a median decrease of 18% in their insurance costs. This year only 34% of owners who switched carriers saw a decrease in the cost of their insurance with only a median decrease of 9%. Nearly 64% of owners who found new carriers saw an increase in their insurance costs.

The removal of lead-based paint coverage from insurance policies continued at a slower rate in 2001. Only 2.1% of building owners reported that insurers were withdrawing lead-based paint coverage from their policies over concern for the potential costs of liability for lead-related health problems.

### Parts and Supplies



The Parts and Supplies component accounts for roughly two percent of the entire price index. The overall increase in the Parts and Supplies component was 0.8%, the lowest increase of any component in this year's price index. Increases in this component have not exceeded 2.2% since 1992 when Parts and Supplies rose 2.5%.

### Replacement Costs



The Replacement Costs component is even less significant than the Parts and Supplies component, its weight being only 1/100th of the PIOC. This year's increase in the Replacement Costs component was only 1.0%.

### Rent Stabilized Hotels

The Hotel Price Index includes separate indices for each of three categories of rent stabilized hotels (due to their dissimilar operating cost profiles) and a general index for all stabilized Hotels. The three categories of hotels are: 1) "traditional" hotels—a multiple dwelling which has amenities such as a front desk, and maid or linen service; 2) Rooming Houses—a multiple dwelling other than a hotel with thirty or fewer sleeping rooms; and, 3) single room occupancy hotels (SRO's)—a multiple dwelling in which one or two persons occupy a single room residing separately and independently of other occupants.

The price index for all stabilized Hotels rose 10.5% this year, almost 2 percentage points more than the increase in the apartment price index. The primary difference between the increase in the hotel index and the apartment index was in the tax component. The increase in taxes for all types of Hotels was 13.2% overall (versus 5.5% in apartment buildings), driven mainly by the increase found in assessments for "traditional" hotels. There was notable diversity among hotel subgroups in tax expense this year, as real estate taxes increased in "traditional" stabilized hotels by 19.2%, by 10.5% in SRO's, and by 6.7% in Rooming Houses. The increase in tax burden found for Hotels this year was caused by the relatively high gains in assessed value for all classes of rent stabilized Hotels (22.0% for "traditional" hotels, 11.2% for SRO's and 6.8% for Rooming Houses), offset slightly by a decrease in the tax rate.

#### CHANGE IN COSTS FOR RENT STABILIZED HOTEL BUILDINGS, APRIL 2000 TO APRIL 2001

Taxes	13.2%
Labor Costs	4.4%
Fuel Costs	32.6%
Utilities Costs	13.9%
Contractor Services	2.9%
Administrative Costs	3.8%
Insurance Costs	4.9%
Parts & Supplies	0.7%
Replacement Costs	1.4%
<b>All Costs</b>	<b>10.5%</b>

#### CHANGE IN COSTS FOR RENT STABILIZED LOFT BUILDINGS, APRIL 2000 TO APRIL 2001

Taxes	5.5%
Labor Costs	4.0%
Fuel Costs	35.6%
Utilities Costs	11.8%
Contractor Services	3.6%
Administrative Costs, Legal	1.6%
Administrative Costs, Other	4.4%
Insurance Costs	4.9%
Parts & Supplies	0.8%
Replacement Costs	1.0%
<b>All Costs</b>	<b>6.8%</b>

#### PROJECTED CHANGE IN COSTS FOR RENT STABILIZED APARTMENT BUILDINGS, APRIL 2001 TO APRIL 2002

Taxes	6.2%
Labor Costs	3.5%
Fuel Costs	-13.6%
Utilities Costs	1.0%
Contractor Services	3.9%
Administrative Costs	3.6%
Insurance Costs	2.5%
Parts & Supplies	1.6%
Replacement Costs	1.0%
<b>All Projected Costs</b>	<b>2.1%</b>



While the increase in cost for taxes was higher for stabilized Hotels than for apartments, these properties also experienced higher increases for labor expense. Labor costs increased more rapidly in Hotels (4.4%) versus the 4.0% rise in apartments, mainly due to the higher increase in the cost of non-union labor in Hotels. The increase in utility cost for Hotels was 13.9%, somewhat smaller than the 15.0% increase for apartments. The difference was due primarily to electricity costs in Hotels, which are weighted more heavily in Hotels than in apartments and did not rise as fast as other heating-related utility costs. Conversely, the rates for contractor services did not rise as quickly in Hotels (2.9%) as they did in apartments (3.6%) this year. Because the contractor services component is less important in the hotel index (accounting for about 10% of the weight) than in the apartment index (about 15% of the weight), the lower increase in maintenance rates did not offset the overall hotel index significantly. The sharper increases in the tax and labor components caused the price index for all stabilized Hotels to rise somewhat faster than the price index for all stabilized apartments.

Among the different categories of Hotels, the index for "traditional" hotels increased 12.2%, SRO's by 10.9% and Rooming Houses by 9.8%. (See Appendices 4 and 7)

## Rent Stabilized Lofts

The increase in the Loft Index this year was 6.8%, 1.9 percentage points lower than the increase for apartments. This difference is explained by the fact that utility costs grew less rapidly (11.8% in lofts versus 15.0% in apartments) and are less important for lofts than for apartments. In addition, fuel costs that rose at a similar rate (35.6% in lofts versus 33.3% for apartments) are also less important for lofts than for apartments. (See Appendix 8)

## 2001-2002 PIOC Projections

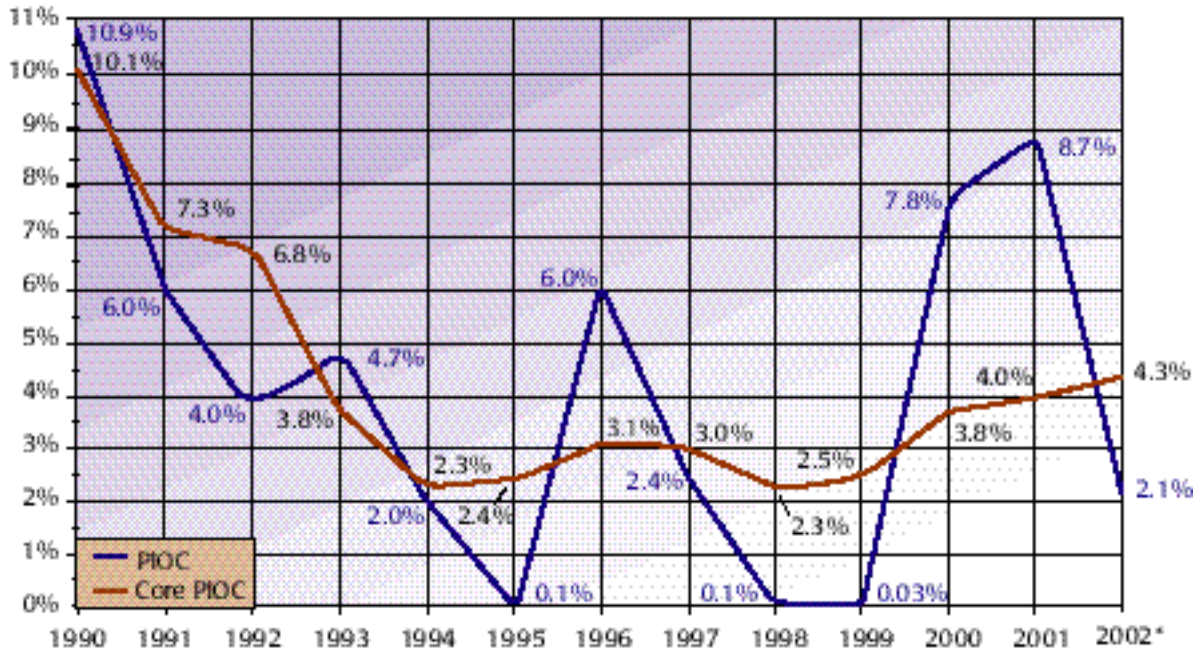
Each year, projections for the components of the PIOC are performed to provide the Rent Guidelines Board with an estimate of how much costs are

expected to rise in the year following the current price index. Along with the current PIOC, the PIOC Projection provides a basis to assist the Board in setting guidelines for tenants choosing two-year leases.

Projecting changes in the PIOC has become more challenging in recent years. Energy prices—which affect about one-sixth of the market basket of operating costs measured in the index—have become increasingly volatile. Unpredictable geopolitical events and changing weather patterns are some of the forces behind large changes in fuel-related costs (heating fuel, electricity, gas and steam), that have in turn hindered the accuracy of the PIOC projections in recent studies.

This year, operating costs in rent stabilized apartment buildings rose by 8.7% versus last year's RGB projection of 3.8%. The steep increase in fuel and utilities costs contributed the most to the variance between the 2001 projection and the actual 2001 PIOC. Fuel costs increased by 33% versus the expected increase of 7%. PIOC projection methodology assumes a return to "normal" weather based on the most recent five-year average (See Endnote 2) when predicting fuel costs. The fact that the past year was much colder than the prior year added about 12.5% to the large rise in fuel costs and 11.5% to gas heating costs. Spikes in energy prices, which were much higher than anticipated, drove the bulk of the fuel cost increase, contributing about 20% to the fuel cost increase. Rising energy costs and the colder weather also contributed to utility costs increasing more quickly than predicted (15.0% versus the 3.2% estimate). The increase in utility costs was largely driven by the cost of gas for heating which rose 58.0% in 2001 versus the 11.4% predicted increase. Insurance costs, another volatile and unpredictable component, rose almost 4 percentage points higher than the 2001 estimate. Labor Costs rose about 1 percentage point more rapidly than anticipated, while Parts and Supplies rose by about 1 percentage point less than expected. Real Estate Taxes, Contractor Services, Administrative Costs and Replacement Costs components, about 50% of the PIOC taken together, rose within seven-tenths of one percent of the projected levels.

**The "Core" Increases to the Highest Level Since 1992**  
 (Percent Change in the Price Index of Operating Costs and the Core PIOC, 1990-2002)



\*Note: The percent change for 2002 was estimated.  
 Source: Price Indices of Operating Costs, 1990-2001, PIOC projection for 2002

The "core" PIOC (see above graph), which measures long-term local trends by factoring out shifts in fuel costs, gas, and electricity rates, rose 4.0% versus last year's RGB projection of 3.4%. Insurance Costs, Parts and Supplies and Labor Costs showed the most variation between the actual and predicted Core increases (the components were 4.0, 1.2 and 1.0 percentage points different than predicted respectively). All of the remaining increases in the core components in the 2001 projection and the actual 2001 core show a high level of agreement. It is interesting to note that the CPI grew on average for the year ending March 2000 to the year ending March 2001 (the latest figures available) by 3.1%. Although the CPI uses a different market basket, the change in non-fuel-related costs measured in the core PIOC is a full percentage point higher than the CPI this year.

Overall, the PIOC is expected to grow by 2.1% from 2001 to 2002 due to a 6.2% projected increase in taxes, and moderate projected growth in labor, utility, contractor services and administrative costs

offset by a 13.6% projected decrease in fuel costs. The "core" PIOC is projected to rise more rapidly than the overall PIOC, by 4.3% as falling energy-related costs are eliminated and will not dampen the growth in the core components.

**Taxes +6.2%**

Property taxes comprise roughly a quarter of the PIOC. From the mid-1980s to the early 1990s, taxes often rose faster than the overall PIOC. From 1993-99, slower increases in tax rates and falling or stable assessments meant that taxes increased more slowly than they had in the prior period. However, the current trend of rising assessments, including the 5.9% increase in assessments found in FY 2001, indicate that the effects of NYC's economic recovery are now being felt in the Tax component.

Class Two properties include rent stabilized apartments, co-ops and condominiums. Within this category, rent stabilized dwellings are classified as either "rental buildings" or "4-10 unit family

buildings." Based on the preliminary tax roll, the Finance Department forecasts billable assessments (the assessed value of a property on which tax liability is based) for rental buildings to increase by 11.6%, while billables for 4-10 family buildings are expected to increase by 4.9% in FY 2002. However, preliminary assessments are slightly imprecise because following the release of the tentative assessment roll each year, a small percentage of appraisals are contested and overall final assessments are generally reduced.

After adjusting for estimated changes in the class levy share, the value of exemptions, the tax rate, the value of abatements, and contested assessments, it is estimated that tax costs to owners will grow by 7.2% and 0.2% respectively for rentals and 4-10 unit properties. Once these tax class categories are combined according to their proportion of the stabilized stock and distribution by borough, average property tax bills for rent stabilized buildings, which are predominantly classified as "rental" buildings, are estimated to increase by 6.2% in the next fiscal year.

### **Labor Based Components**

**(Labor +3.5%, Administrative Costs +3.6% and Contractor Services +3.9%)**

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

Contracts for both the Westchester County (formerly 32E which serves the Bronx) and the New York City chapters of Union Local 32B-32J were negotiated through 2002 so exact projections of the rate change in wages could be calculated. All other projected labor increases are based on a geometric eight-year average.

Wages for members of Local 32B-32J in the Bronx will rise 1.8% while wages for NYC Local 32B-32J are predicted to rise 3.2% for superintendents and 3.4% for handypersons and

others. By combining these increases with the remaining items in the Labor component, an increase of 3.5% is projected in labor costs for the coming year.

Increases in Administrative Costs and Contractor Services are projected by averaging the growth rates observed in each component over the past three years. Administrative cost increases have been fairly constant over the decade and are estimated to rise by 3.6% over the next year. In comparison, the cost of Contractor Services has been more variable in the recent past and based on a three-year average is projected to increase by 3.9% next year.

### **Fuel -13.6%**

The cost of fuel oil depends heavily on volatile weather patterns as well as political and economic variables that cannot be reliably predicted. Given these difficulties (and barring unforeseen natural or geopolitical events), the cost of oil heating in New York City is estimated to decrease by 13.6% in the coming year following last year's significant cost increase.

Assuming that annual temperatures in 2002 return to the most recent five-year average for Central Park, New York City (see Endnote 2), which would be about 10% warmer than the weather experienced in 2000-01, the commensurate decrease in demand for heating fuels will in turn decrease the cost of fuel oil to building owners.

In sum, based on current U.S. Energy Information Administration (EIA) forecasts, declining fuel prices and reduced fuel consumption brought about by "normal" weather conditions, are estimated to decrease fuel oil heating costs to owners of stabilized buildings in New York City by 13.6% in the next year.<sup>4</sup>

### **Utilities +1.0%**

In the PIOC, the costs of electricity, natural gas, water and sewer service, purchased steam and telephone service are grouped as Utilities. Water and sewer costs alone account for about 57% of this component this year, while electricity and gas comprise another 40% of the utility category (17% and 23% respectively).

Steam and telephone prices constitute the remainder of the Utilities component (3%).

Next year, the overall cost of utilities is estimated to rise by 1.0%. The bulk of this modest growth will come from an estimated decrease in the cost of natural gas (-6.7% according to EIA price estimates and an assumed return to the five-year average weather pattern), and a 0.2% decrease in electricity costs. The projected decrease in energy-related costs is offset by a moderate estimated increase in water and sewer rates (a 3.5% increase is proposed for the coming year).

The New York State Public Service Commission (PSC) estimates that following recent rate drops, electricity delivery rates will remain relatively constant in the upcoming year. In January 2001 and again in April 2001, Con Edison's delivery rates were reduced for most multi-family buildings. These rate decreases resulted in an approximate 8% reduction in total average bills for most sizes of multi-family buildings in the first quarter of 2001. If weather is "normal" and fuel prices do not drop as expected, then electricity prices this summer will be higher than last summer, offsetting the earlier rate decreases. However, adjustment charges for the changing cost of supplying power should decrease somewhat assuming fuel prices behave as predicted. Using the most recent EIA projections, the cost of electricity is estimated to drop minimally, by 0.2% over the coming year.

Natural gas costs are estimated to decrease by 6.7% next year. Neither Keyspan nor Con Edison expects an increase in rates or delivery charges over the upcoming year. Assuming a return to the five-year average weather pattern in combination with EIA estimates for the change in natural gas prices which take into account dropping fuel price adjustment charges, decreased consumption is projected to ultimately produce a decline in gas costs of 6.7% over the next year. (See Endnote 2)

During the past ten years, water and sewer costs have grown the fastest of all the items in the Utilities component. After many double digit increases, water and sewer rates were frozen from FY 1994 to FY 1995. Rates were unfrozen in FY 1996, rising by 5%, followed by increases of 6.5% in FY 1997 and

'98. Rates rose less rapidly FY 1999 and FY 2000, each by 4%, followed by an increase of 1% for FY 2001. An increase of 3.5% should take effect from July 1st, given current proposals before the New York City Water Board.

In total, weighted changes in water and sewer charges, electricity, steam, telephone and natural gas costs, are projected to cause Utilities to rise by 1.0% in 2002.

### **Insurance +2.5%**

Insurance Costs for rent stabilized buildings increased 4.9% last year up from growth of 0.7% the year before. This highly variable component showed a decrease of 1.5% in 1998 and an increase of 3.5% in 1999. Based on a geometric eight-year average, Insurance Costs are estimated to rise by 2.5% over the coming year.

### **Parts and Supplies +1.6%**

The Parts and Supplies component has usually played a very small role in the PIOC, comprising slightly more than 2% of the index in 2001. Over the past six years there has been very modest growth in this component ranging from 0.8% to 2.2%. This trend should extend to 2002 when the cost of Parts and Supplies is estimated to increase by 1.6%.

### **Replacement Costs +1.0%**

This component accounted for about one percent of the entire price index in 2001. Over the past year, Replacement Costs increased by only 1.0%. The modest 15-year trend of growth in Replacement Costs should continue with costs rising by an estimated 1.0% over the next year.

## **Methodology**

### **Owner Survey**

The Owner Survey gathers information on management fees, insurance, and non-union labor from building managers and owners. Survey

questionnaires, accompanied by a letter describing the purpose of the PIOC, were mailed to the owners or managing agents of stabilized buildings.

This year the questionnaire contained an additional section that asked owners detailed questions on how they heat the property selected in the sample of rent stabilized buildings. A total of 645 completed heating surveys were returned to the RGB. The survey found significant shifts in the usage patterns of the three grades of fuel oil and natural gas used for heating as measured by the PIOC since the weights were last updated in 1982. Survey findings showed that there has been a significant shift from oil to gas for space heating over the last 19 years and that, for oil heated buildings, there has been growing dependence on #2 oil instead of #6 oil. The results of the survey were used to redistribute the weights among the following items: 301, 302, 303 and 406, to reflect current heating patterns. The survey did not affect the importance or weight of any of the remaining items in the PIOC. Implementing the results of the heating survey did not impact the outcome of the PIOC significantly. The difference between the PIOC percent change with the old weights and the new weights was one-tenth of one percent.

If the returned questionnaire was not complete, an interviewer contacted the owner/manager and the missing information was gathered. All of the price information given by the owner/managing agents was then confirmed by calling the relevant insurance and management companies and non-union employees.

The sample frame for the Owner Survey included more than 41,000 stabilized buildings registered with the New York State Division of Housing and Community Renewal (DHCR) in 1999. A random sampling scheme was used to choose 5,100 addresses from this pool for the owner mailing. The number of buildings chosen in each borough was proportional to the share of stabilized buildings in that borough. The "multiple contact" method was used for the third consecutive year for the Owner Survey. Three successive mailings were sent at timed intervals to the owner or managing agent of each property selected in the survey sample. Over 17% of the questionnaires mailed out were

returned to the RGB. A total of 800 returned surveys contained information, from which 607 insurance prices, 162 non-union labor quotes and 117 management fees were validated. The number of verified prices in 2000 and 2001 for the Owner Survey is shown in Appendix 1.

### Fuel Oil Vendor Survey

Fuel price information is gathered on a monthly basis via a telephone survey. A monthly survey makes it possible to keep in touch with fuel vendors and to gather the data on a consistent basis (i.e. on the same day of the month for each vendor). Vendors are called each month to minimize the likelihood of misreporting and also to reduce the reporting burden for the companies that do not care to look up a year's worth of prices. The number of fuel quotes gathered this year was comparable to last year and is contained in Appendix 1.

To calculate changes in fuel oil costs, monthly price data is weighted using a degree-day formula to account for changes in the weather. The number of heating degree-days (see Endnote 2) is a measure of heating requirements.

### Real Estate Tax Computations

The sample of buildings used to compute the 2001 tax price relative was drawn by providing a list of rent stabilized properties registered with DHCR to the Department of Finance. Finance "matched" this list against its records to provide data on assessed value, tax exemptions, and tax abatements for more than 36,000 buildings in FY 2000 and FY 2001. The list of rent stabilized buildings that registered with DHCR in 1998 was used this year.

The Department of Finance data was used to compute a tax bill for each stabilized building in FY 2000 and FY 2001. The change computed for the PIOC is simply the percentage increase in aggregate tax bills for these buildings from FY 2000 to FY 2001.

### Vendor Survey

The Vendor Survey is used to gather price quotes for Contractor Services (e.g. painting), Administrative

Costs (e.g. management and attorney fees), Parts & Supplies (e.g. mops), and Replacement Costs (e.g. refrigerators). As in prior years, the vendor database was updated by adding new vendors and deleting those who no longer carry the products in question. All vendor quotes were obtained over the telephone. The telephone interview procedures used for gathering price quotes were unchanged from prior years. A total of 682 recorded price quotes were gathered. For a detailed description of the items priced and the number of price quotations obtained for each item, refer to Appendix 1.

### **Water/Sewer Sample**

To measure the change in water and sewer costs for rent stabilized buildings, actual bills from a random sample of properties were accessed through the NYC Department of Environmental Protection (DEP)'s Customer Information System (CIS) and examined. This study used the same basic methodology that has been used in the last two RGB water/sewer studies. This year, the sample size was increased to 1,600 rent stabilized buildings, up from 1,200 in the 2000 PIOC and 625 in the 1999 PIOC, to reduce statistical sampling error. The random sample of buildings was drawn from the most recent list of stabilized buildings registered with DHCR in 1999. The sample included 1,041 buildings (69%) billed on frontage in both years, 412 buildings (28%) billed on metered billing in both years, and 38 buildings (3%) that converted from frontage to metered billing. This last group of properties was a smaller share of the sample, unlike in previous studies (6% in the 2000 PIOC and 3% in 1999 PIOC). A total of 109 records (7%) for the desired time period were deemed unusable and removed from the analysis due to incomplete data, often resulting from a large number of estimated bills or missing bills due to meter malfunctions and other technical problems.

With the assistance of DEP staff, each building's accounts were examined to determine the latest available correct billing amounts for the current year (either FY 2001 or calendar year 2000) and prior year (either FY 2000 or calendar year 1999)

depending on the billing type. Adjustments were made for billing errors, rebate program credits, and irregular billing periods when they occurred. Following data collection, weights were created based on the proportion of properties that were billed on a frontage basis or metered basis (including mixed-billing). This year, 70% of the buildings were billed on a frontage basis and 30% were on metered-billing. The weights were then assigned to the two component items within the utility cost category. Similar to the method used in prior RGB PIOC studies, the Water Board FY 2001 increase of 1.0% in water and sewer charges was assigned to all buildings in the frontage component item, after an examination of 200 actual frontage bills showed a 1% increase in charges during the time period.

Many metered buildings, or buildings that moved from frontage to metered billing over the period, had highly variable changes in costs that were significantly different than the Water Board rate. As described earlier, the nature of metered billing is to base costs on actual consumption; thus these buildings are more sensitive to changes in consumption than those billed on a frontage basis. Small buildings (6-19 units) are particularly vulnerable to these quarterly swings; that is, a new vacancy or occupancy, or a leak in one unit has a more significant impact on the entire building's water/sewer bill. Other reasons for substantial fluctuations in bills include faulty equipment - problems with meters and dials, unaddressed leak or waste; incorrect customer-read bills, and estimated bills which often under- or over-estimate usage depending on when the last actual read was taken.

During 1999-2000, DEP continued working toward its goal of installing meters in all NYC residential buildings, as it has since 1986, and DEP estimates that about 80% of residential buildings now have meters.<sup>5</sup> Property owners are currently charged a 100% surcharge of their current annualized bill for failing to install, repair or replace a meter or remote.<sup>6</sup> Many buildings with 6 or more units that become metered join various transitional billing programs if they qualify, which limit charges during the transition.

The Water Board intends to phase out historical and currently existing frontage and flat-rate billing bases by the end of June 2004, along with transitional billing programs. In October 2000, the Board approved a new program to "promote water conservation in multi-family buildings" and give owners "a measure of control over their water and sewer costs."<sup>7</sup> Under the program, owners of buildings with six or more units with meters can elect in lieu of metered billing, to be billed on a fixed charge per dwelling unit, if they have shown that water-saving equipment and practices have been installed. In other words, as opposed to receiving quarterly bills based on consumption, these customers will pay a predetermined annual water and sewer charges. In these buildings, DEP will continue to monitor consumption to ensure that conservation is being achieved. If owners in the program refuse to fix leaks or other problems, they will have to pay the higher metered-rate. The program will begin in FY 2002 (beginning July 1, 2001) and the fixed charge will be \$424 per dwelling unit plus any rate increase enacted for 2002. The Water Board may adjust this charge in later fiscal years.

### Other Items

In addition to the items previously discussed, a number of other pieces of information are needed to complete the PIOC, including union contract and benefit information, Social Security rates, unemployment insurance rates, heating degree-days, and utility rate schedules. These items are used in computing some of the labor components, changes in utility costs for electricity, gas, steam, and telephone, and the cost-weighted change in fuel expenses.

### Price Index Projections

The PIOC Projections are estimated by using data from Federal, state and local agencies, estimates from related industry experts and trend forecasting using three or eight-year averages.

Taxes were projected by using data from the Department of Finance's tentative assessment roll

for FY 2002 and the amended and restated City Council tax fixing resolution to estimate (for Class Two properties) the change in class levy share and assessments, the tax rate and the impact of exemptions and abatements in the coming fiscal year. These estimates produce a projected tax cost for the owners of rental and 4-10 family buildings. Labor costs are projected by analyzing labor contract terms supplied by apartment workers union Local 32-BJ and an eight-year geometric average of all other Labor items. Fuel costs are projected by using data and information from the U.S. Energy Information Administration's current "Short-Term Energy Outlook" report, which includes assumptions about changes in usage according to a projected return to the average temperature over the last five years. Utility costs are projected by obtaining rate projections for the coming year from the New York State Public Service Commission, the New York City Water Board, industry representatives from area utility companies and EIA projections. Natural gas rate projections are combined with assumptions about usage if the coming year's weather had the five-year average number of heating degree-days (see Endnote 2).

The other components, Administrative Costs, Contractor Services, Insurance, Parts and Supplies, and Replacement Costs are projected by using three-year or eight-year geometric averages of the component price relatives.

### Acknowledgments

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## **Endnotes**

- (1) The average CPI-U for All Urban Consumers, New York-Northeastern New Jersey for the year from April 1999 to March 2000 (178.3) compared to the average for the year from April 2000 to March 2001 (183.8) rose by 3.1%. This is the latest available CPI data and is roughly analogous to the 'PIOC year', which for the majority of components compares the most recent point-to-point figures from April to April, monthly cost-weighted figures from May to April, or the two most recent fiscal year bills from July to July).
- (2) The May 2000 to April 2001 year was 10% colder the most recent 5-year average "normal" year, and 16% colder than the year before. "Normal" weather refers to the typical number of heating degree-days measured at Central Park over a given period. A heating degree-day is defined as, for one day, the number of degrees that the average temperature for that day is below 65 degrees Fahrenheit. The most recent five-year average "normal" temperature refers to the total number of average annual Heating Degree Days from 1996 to 2000 measured in Central Park by the National Weather Service.
- (3) "Public Information Regarding Water and Wastewater Rates", New York City Water Board, April 2001.
- (4) Source: "Short-Term Energy Outlook," April 2001. U.S. Energy Information Administration, Department of Energy.
- (5) "City Switches Its Stance on Water Meters" by Eric Lipton, The New York Times, December 15, 2000.
- (6) "Water and Wastewater Rate Schedule", New York City Water Board, July 1, 2000.
- (7) "Conservation Program for Multiple Family Residential Buildings Implementation Guidelines", New York City Water Board, October 26, 2000.



# Appendix

## 1. PIOC Sample, Number of Price Quotes per Item, 2000 vs. 2001

Spec	Description	2000	2001	Spec	Description	2000	2001
211	Apartment Value	175	159	701	INSURANCE COSTS	<b>656</b>	<b>607</b>
212	Non-Union Super	114	99				
216	Non-Union Janitor/Porter	60	63	801	Light bulbs	10	6
	LABOR COST	<b>349</b>	<b>321</b>	802	Light Switch	10	7
301	Fuel Oil #2	31	29	803	Wet Mop	8	12
302	Fuel Oil #4	9	8	804	Floor Wax	7	7
303	Fuel Oil #6	7	6	805	Paint	16	15
	FUEL COSTS	<b>47</b>	<b>43</b>	806	Pushbroom	8	6
501	Repainting	131	115	807	Detergent	7	5
502	Plumbing,Faucet	34	33	808	Bucket	11	10
503	Plumbing,Stoppage	31	37	809	Washers	12	10
504	Elevator #1	14	11	810	Linens	10	10
505	Elevator #2	14	11	811	Pine Disinfectant	7	7
506	Elevator #3	14	11	812	Window/Glass Cleaner	6	6
507	Burner Repair	13	15	813	Switch Plate	10	11
508	Boiler Repair,Tube	10	10	814	Duplex Receptacle	11	8
509	Boiler Repair,Weld	5	6	815	Toilet Seat	16	15
510	Refrigerator Repair	11	13	816	Deck Faucet	13	10
511	Range Repair	12	14		PARTS & SUPPLIES	<b>162</b>	<b>145</b>
512	Roof Repair	24	22	901	Refrigerator #1	7	9
513	Air Conditioner Repair	11	10	902	Refrigerator #2	10	11
514	Floor Maint. #1	10	8	903	Air Conditioner #1	5	5
515	Floor Maint. #2	10	8	904	Air Conditioner #2	5	5
516	Floor Maint. #3	10	8	905	Floor Runner	13	11
518	Linen/Laundry Service	6	5	906	Dishwasher	9	6
	CONTRACTOR SERVICES	<b>360</b>	<b>337</b>	907	Range #1	7	6
601	Management Fees	124	117	908	Range #2	7	7
602	Accountant Fees	28	30	909	Carpet	15	12
603	Attorney Fees	23	21	910	Dresser	9	8
604	Newspaper Ads	20	19	911	Mattress & Box Spring	13	13
605	Agency Fees	5	5		REPLACEMENT COSTS	<b>100</b>	<b>93</b>
606	Lease Forms	10	12				
607	Bill Envelopes	14	12				
608	Ledger Paper	9	8				
	ADMINISTRATIVE COSTS	<b>233</b>	<b>224</b>		All Items	<b>1907</b>	<b>1770</b>

## 2. Expenditure Weights, Price Relatives, Percent Changes and Standard Errors, All Apartments, 2001

Spec #	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error	Spec #	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error
101	TAXES,FEES,& PERMITS	<b>0.2526</b>	<b>1.0545</b>	<b>5.45%</b>	<b>0.0309</b>	601	Management Fees	0.6833	1.0447	4.47%	0.8178
201	Payroll,Bronx,All	0.1207	1.0178	1.78%	0.0000	602	Accountant Fees	0.1434	1.0498	4.98%	1.8137
202	Payroll,Other, Union,Supts.	0.1172	1.0340	3.40%	0.0000	603	Attorney Fees	0.1342	1.0161	1.61%	1.1923
203	Payroll,Other, Union,Other	0.2891	1.0351	3.51%	0.0000	604	Newspaper Ads	0.0044	1.0268	2.68%	1.4068
204	Payroll,Other, Non-Union,All	0.2833	1.0520	5.20%	0.6383	605	Agency Fees	0.0055	1.0374	3.74%	1.8642
205	Social Security Insurance	0.0472	1.0330	3.30%	0.0000	606	Lease Forms	0.0104	1.0177	1.77%	1.3881
206	Unemployment Insurance	0.0067	1.1143	11.43%	0.0000	607	Bill Envelopes	0.0101	1.0285	2.85%	2.8302
207	Private Health & Welfare	0.1358	1.0456	4.56%	0.0000	608	Ledger Paper	0.0088	1.0000	0.00%	0.0000
	<b>LABOR COSTS</b>	<b>0.1677</b>	<b>1.0395</b>	<b>3.95%</b>	<b>0.1808</b>		<b>ADMINISTRATIVE COSTS</b>	<b>0.0853</b>	<b>1.0406</b>	<b>4.06%</b>	<b>0.6377</b>
301	Fuel Oil #2	0.5919	1.3156	31.56%	0.7720	701	<b>INSURANCE COSTS</b>	<b>0.0621</b>	<b>1.0486</b>	<b>4.86%</b>	<b>0.7283</b>
302	Fuel Oil #4	0.1485	1.3825	38.25%	2.9508	801	Light Bulbs	0.0378	1.0135	1.35%	1.0918
303	Fuel Oil #6	0.2596	1.3455	34.55%	1.6371	802	Light Switch	0.0482	1.0000	0.00%	0.0000
	<b>FUEL</b>	<b>0.0949</b>	<b>1.3333</b>	<b>33.33%</b>	<b>0.7625</b>	803	Wet Mop	0.0415	1.0435	4.35%	4.1948
401	Electricity #1,2,500 KWH	0.0121	1.0144	1.44%	0.0000	804	Floor Wax	0.0399	1.0032	0.32%	0.3218
402	Electricity #2,15,000 KWH	0.1543	1.0198	1.98%	0.0000	805	Paint	0.2219	1.0194	1.94%	1.2570
403	Electricity #3,82,000 KWH	0.0000	1.0710	7.10%	0.0000	806	Pushbroom	0.0362	1.0000	0.00%	0.0000
404	Gas #1,12,000 therms	0.0044	1.4235	42.35%	0.0000	807	Detergent	0.0323	1.0361	3.61%	3.7494
405	Gas #2,65,000 therms	0.0465	1.5686	56.86%	0.0000	808	Bucket	0.0417	0.9595	-4.05%	2.8472
406	Gas #3,214,000 therms	0.1854	1.5795	57.95%	0.0000	809	Washers	0.0998	0.9998	-0.02%	0.1048
407	Steam #1,1.2m lbs	0.0157	1.2236	22.36%	0.0000	811	Pine Disinfectant	0.0473	1.0095	0.95%	1.0213
408	Steam #2,2.6m lbs	0.0060	1.2470	24.70%	0.0000	812	Window/Glass Cleaner	0.0511	1.0000	0.00%	0.0000
409	Telephone	0.0104	0.9768	-2.32%	0.0000	813	Switch Plate	0.0457	1.0000	0.00%	0.0000
410	Water & Sewer - Frontage	0.4270	1.0100	1.00%	0.0000	814	Duplex Receptacle	0.0343	1.0000	0.00%	0.0000
411	Water & Sewer - Metered	0.1382	1.0106	1.06%	1.8926	815	Toilet Seat	0.0998	1.0147	1.47%	1.0485
	<b>UTILITIES</b>	<b>0.1541</b>	<b>1.1495</b>	<b>14.95%</b>	<b>0.2616</b>	816	Deck Faucet	0.1223	1.0000	0.00%	0.0000
501	Repainting	0.4139	1.0281	2.81%	1.0307		<b>PARTS AND SUPPLIES</b>	<b>0.0221</b>	<b>1.0081</b>	<b>0.81%</b>	<b>0.3902</b>
502	Plumbing,Faucet	0.1375	1.0416	4.16%	1.1263	901	Refrigerator #1	0.0918	1.0184	1.84%	1.1237
503	Plumbing,Stoppage	0.1242	1.0395	3.95%	1.1468	902	Refrigerator #2	0.4754	1.0140	1.40%	0.9970
504	Elevator #1,6 fl.,1 e.	0.0548	1.0372	3.72%	1.8356	903	Air Conditioner #1	0.0172	1.0050	0.50%	0.4737
505	Elevator #2,13 fl.,2 e.	0.0360	1.0326	3.26%	1.5565	904	Air Conditioner #2	0.0221	1.0074	0.74%	0.7492
506	Elevator #3,19 fl.,3 e.	0.0210	1.0285	2.85%	1.3054	905	Floor Runner	0.0885	1.0025	0.25%	1.9562
507	Burner Repair	0.0386	1.0235	2.35%	1.1909	906	Dishwasher	0.0477	1.0000	0.00%	0.0000
508	Boiler Repair,Tube	0.0458	1.0337	3.37%	1.7962	907	Range #1	0.0457	1.0075	0.75%	0.7826
509	Boiler Repair,WVeld	0.0329	1.0526	5.26%	2.2019	908	Range #2	0.2115	1.0026	0.26%	0.2725
510	Refrigerator Repair	0.0128	1.0257	2.57%	1.5481		<b>REPLACEMENT COSTS</b>	<b>0.0095</b>	<b>1.0097</b>	<b>0.97%</b>	<b>0.5198</b>
511	Range Repair	0.0135	1.0226	2.26%	2.0353		<b>ALL ITEMS</b>	<b>1.0000</b>	<b>1.0873</b>	<b>8.73%</b>	<b>0.1398</b>
512	Roof Repair	0.0545	1.0924	9.24%	3.1669						
513	Air Conditioner Repair	0.0088	1.0382	3.82%	2.7424						
514	Floor Maint.#1,Studio	0.0003	1.0121	1.21%	3.6914						
515	Floor Maint.#2,1 Br.	0.0005	1.0078	0.78%	3.4713						
516	Floor Maint.#3,2 Br.	0.0048	1.0112	1.12%	3.4940						
	<b>CONTRACTORSERVICES</b>	<b>0.1517</b>	<b>1.0363</b>	<b>3.63%</b>	<b>0.5350</b>						

### 3. Price Relatives by Building Type, Apartments, 2001

Spec #s	Item Description	Pre-1947	Post-1946	Gas Heated	Oil Heated	MASTER METERED BLDGS
101	TAXES,FEES, & PERMITS	1.0545	1.0545	1.0545	1.0545	1.0545
201-207	LABOR COSTS	1.0402	1.0388	1.0424	1.0391	1.0434
301-303	FUEL	1.3314	1.3408	1.3160	1.3339	1.3168
401-411	UTILITIES	1.1886	1.1446	1.3157	1.0298	1.1849
501-516	CONTRACTOR SERVICES	1.0371	1.0341	1.0342	1.0368	1.0357
601-608	ADMINISTRATIVE COSTS	1.0269	1.0380	1.0318	1.0318	1.0273
701	INSURANCE COSTS	1.0486	1.0486	1.0486	1.0486	1.0486
801-816	PARTS AND SUPPLIES	1.0081	1.0081	1.0085	1.0080	1.0068
901-908	REPLACEMENT COSTS	1.0096	1.0100	1.0083	1.0101	1.0087

**ALL ITEMS**

1.1006

1.0785

1.1082

1.0844

1.0903

### 4. Price Relative by Hotel Type, 2001

Spec #	Item Description	Hotel	RH	SRO
101	TAXES,FEES,& PERMITS	1.1920	1.0665	1.1046
205-206,208-216	LABOR COSTS	1.0361	1.0569	1.0545
301-302	FUEL	1.3237	1.3156	1.3400
401-407,409-411	UTILITIES	1.1224	1.1275	1.1976
501-509,511-516,518	CONTRACTOR SERVICES	1.0275	1.0313	1.0326
601-608	ADMINISTRATIVE COSTS	1.0386	1.0372	1.0371
701	INSURANCE COSTS	1.0486	1.0486	1.0486
801-816	PARTS AND SUPPLIES	1.0061	1.0096	1.0074
901-904,907-911	REPLACEMENT COSTS	1.0137	1.0138	1.0134

**ALL ITEMS**

1.1215

1.0982

1.1091

## 5. Percentage Change in Real Estate Tax Sample by Borough and Source of Change, Apartments and Hotels, 2001

	% Change Due to Assessments	% Change Due to Exemptions	% Change Due to Abatements	% Change Due to Tax Rate	% Change Due to Interactions	Total % Change
<b>APARTMENTS</b>						
Manhattan	6.54%	-0.71%	0.06%	-0.09%	-0.01%	5.79%
Bronx	5.74%	-1.78%	0.88%	-0.04%	0.00%	4.79%
Brooklyn	5.03%	-0.40%	0.80%	-0.04%	0.00%	5.38%
Queens	4.56%	-0.55%	0.69%	-0.04%	0.00%	4.66%
Staten Island	2.79%	0.56%	0.46%	-0.04%	0.00%	3.77%
<b>Total</b>	<b>5.91%</b>	<b>-0.73%</b>	<b>0.34%</b>	<b>-0.07%</b>	<b>0.00%</b>	<b>5.45%</b>
<b>HOTELS</b>						
Hotel	22.01%	-0.33%	-0.05%	-1.97%	-0.45%	19.20%
RH	6.84%	-0.03%	0.05%	-0.18%	-0.03%	6.65%
SRO	11.18%	0.45%	-0.30%	-0.73%	-0.14%	10.46%
<b>Total</b>	<b>14.68%</b>	<b>0.07%</b>	<b>-0.15%</b>	<b>-1.12%</b>	<b>-0.25%</b>	<b>13.24%</b>

Note: Totals may not add due to rounding.

## 6. Tax Change by Borough and Community Board, Apartments, 2001

Borough	Community Board	Number of Buildings	Tax Relative	Borough	Community Board	Number of Buildings	Tax Relative	Borough	Community Board	Number of Buildings	Tax Relative
Manhattan	<b>All</b>	<b>12992</b>	<b>5.79</b>	(Bronx cont.)	8	346	3.45	(Queens cont.)	1	1817	4.99
	1	35	-10.65	9	286	6.00	2	844	7.84		
	2	1223	6.61	10	171	6.21	3	398	5.69		
	3	1542	7.30	11	277	4.16	4	368	4.00		
	4	1028	5.47	12	381	5.82	5	1150	3.23		
	5	299	5.66	Brooklyn	<b>All</b>	<b>12393</b>	<b>5.38</b>	6	344	3.55	
	6	958	4.68		7	431	5.23				
	7	2096	7.19		8	186	4.28				
	8	2343	5.90		9	195	5.91				
	9	704	3.58		10	64	5.58				
	10	746	-6.57		11	132	4.11				
	11	572	2.32		12	153	4.51				
	12	1425	7.31		13	50	1.50				
Lower Man.	<b>9024</b>	<b>5.78</b>	14		86	6.15					
Upper Man.	<b>3968</b>	<b>5.89</b>	8		934	6.47					
Bronx	<b>All</b>	<b>4867</b>	<b>4.79</b>		9	551	5.27	Staten Island	<b>All</b>	<b>175</b>	<b>3.77</b>
	1	245	3.74		10	837	4.85	1	117	4.47	
	2	205	-7.84	11	753	6.47	2	33	1.13		
	3	239	-12.43	12	618	5.48	3	21	2.76		
	4	652	5.01	13	173	4.17					
	5	635	7.18	14	904	5.43					
	6	451	6.98	15	392	4.96					
	7	921	6.81	16	222	2.23					
			17	604	5.14						
			18	69	3.72						
			Queens	<b>All</b>	<b>6364</b>	<b>4.66</b>	Total	<b>All</b>	<b>36791</b>	<b>5.45</b>	

Note: No Community Board could be assigned to the following number of buildings for each borough: Manhattan (21),Bronx (58),Brooklyn (16),Queens (146),Staten Island (4). The number of buildings in the category "All" for each borough includes these buildings which could not be assigned a Community Board. Lower and Upper Manhattan building totals are defined by block count and cannot be calculated by using Community Board numbers alone.

## 7. Expenditure Weights, Price Relatives, Percent Changes and Standard Errors, All Hotels, 2001

Spec #	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error	Spec #	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error
101	TAXES,FEES,& PERMITS	<b>0.2370</b>	<b>1.1324</b>	<b>13.24%</b>	<b>1.1885</b>	601	Management Fees	0.6146	1.0447	4.47%	0.8178
205	Social Security Insurance	0.0573	1.0330	3.30%	0.0000	602	Accountant Fees	0.0830	1.0498	4.98%	1.8137
206	Unemployment Insurance	0.0145	1.1143	11.43%	0.0000	603	Attorney Fees	0.1396	1.0161	1.61%	1.1923
208	Hotel Private Health/Welfare	0.0350	1.0242	2.42%	0.0000	604	Newspaper Ads	0.1034	1.0268	2.68%	1.4068
209	Hotel Union Labor	0.3252	1.0278	2.78%	0.0000	605	Agency Fees	0.0241	1.0374	3.74%	1.8642
210	SRO Union Labor	0.0126	1.0255	2.55%	0.0000	606	Lease Forms	0.0117	1.0177	1.77%	1.3881
211	Apartment Value	0.1217	1.0600	6.00%	1.5280	607	Bill Envelopes	0.0137	1.0285	2.85%	2.8302
212	Non-Union Superintendent	0.3058	1.0601	6.01%	0.8772	608	Ledger Paper	0.0100	1.0000	0.00%	0.0000
213	Non-Union Maid	0.0000	0.0000	NA	0.0000		ADMINISTRATIVE COSTS	<b>0.0951</b>	<b>1.0381</b>	<b>3.81%</b>	<b>0.5726</b>
214	Non-Union Desk Clerk	0.0000	0.0000	NA	0.0000	701	INSURANCE COSTS	<b>0.0346</b>	<b>1.0486</b>	<b>4.86%</b>	<b>0.7283</b>
215	Non-Union Maintenance Worker	0.0000	0.0000	NA	0.0000	801	Light Bulbs	0.0156	1.0135	1.35%	1.0918
216	Non-Union Janitor/Porter	0.1279	1.0391	3.91%	0.8602	802	Light Switch	0.0181	1.0000	0.00%	0.0000
	LABOR COSTS	<b>0.1874</b>	<b>1.0444</b>	<b>4.44%</b>	<b>0.3445</b>	803	Wet Mop	0.0490	1.0435	4.35%	4.1948
301	Fuel Oil #2	0.6807	1.3156	31.56%	0.7720	804	Floor Wax	0.0496	1.0032	0.32%	0.3218
302	Fuel Oil #4	0.0151	1.3825	38.25%	2.9508	805	Paint	0.1218	1.0194	1.94%	1.2570
303	Fuel Oil #6	0.3042	1.3455	34.55%	1.6371	806	Pushbroom	0.0411	1.0000	0.00%	0.0000
	FUEL	<b>0.1062</b>	<b>1.3257</b>	<b>32.57%</b>	<b>0.7254</b>	807	Detergent	0.0431	1.0361	3.61%	3.7494
401	Electricity #1,2,500 KWH	0.0803	1.0144	1.44%	0.0000	808	Bucket	0.0508	0.9595	-4.05%	2.8472
402	Electricity #2,15,000 KWH	0.0867	1.0198	1.98%	0.0000	809	Washers	0.0498	0.9998	-0.02%	0.1048
403	Electricity #3,82,000 KWH	0.2699	1.0710	7.10%	0.0000	810	Linens	0.3168	1.0053	0.53%	0.3490
404	Gas #1,12,000 therms	0.0452	1.4235	42.35%	0.0000	811	Pine Disinfectant	0.0185	1.0095	0.95%	1.0213
405	Gas #2,65,000 therms	0.0338	1.5686	56.86%	0.0000	812	Window/Glass Cleaner	0.0197	1.0000	0.00%	0.0000
406	Gas #3,214,000 therms	0.1389	1.5795	57.95%	0.0000	813	Switch Plate	0.0540	1.0000	0.00%	0.0000
407	Steam #1,1.2m lbs	0.0002	1.2236	22.36%	0.0000	814	Duplex Receptacle	0.0412	1.0000	0.00%	0.0000
409	Telephone	0.1790	0.9768	-2.32%	0.0000	815	Toilet Seat	0.0497	1.0147	1.47%	1.0485
410	Water & Sewer - Frontage	0.1254	1.0100	1.00%	0.0000	816	Deck Faucet	0.0611	1.0000	0.00%	0.0000
411	Water & Sewer - Metered	0.0406	1.0106	1.06%	1.8926		PARTS AND SUPPLIES	<b>0.0588</b>	<b>1.0069</b>	<b>0.69%</b>	<b>0.3587</b>
	UTILITIES	<b>0.1568</b>	<b>1.1385</b>	<b>13.85%</b>	<b>0.0768</b>	901	Refrigerator #1	0.0195	1.0184	1.84%	1.1237
501	Repainting	0.2159	1.0281	2.81%	1.0307	902	Refrigerator #2	0.1004	1.0140	1.40%	0.9970
502	Plumbing,Faucet	0.0814	1.0416	4.16%	1.1263	903	Air Conditioner #1	0.0609	1.0050	0.50%	0.4737
503	Plumbing,Stoppage	0.0779	1.0395	3.95%	1.1468	904	Air Conditioner #2	0.0742	1.0074	0.74%	0.7492
504	Elevator #1,6 fl.,1 e.	0.0351	1.0372	3.72%	1.8356	907	Range #1	0.0086	1.0075	0.75%	0.7826
505	Elevator #2,13 fl.,2 e.	0.0318	1.0326	3.26%	1.5565	908	Range #2	0.0405	1.0026	0.26%	0.2725
506	Elevator #3,19 fl.,3 e.	0.0303	1.0285	2.85%	1.3054	909	Carpet	0.3448	1.0147	1.47%	0.9390
507	Burner Repair	0.0264	1.0235	2.35%	1.1909	910	Dresser	0.1815	1.0286	2.86%	2.2959
508	Boiler Repair,Tube	0.0283	1.0337	3.37%	1.7962	911	Mattress & Box Spring	0.1695	1.0036	0.36%	0.4619
509	Boiler Repair,Weld	0.0240	1.0526	5.26%	1.5481		REPLACEMENT COSTS	<b>0.0242</b>	<b>1.0137</b>	<b>1.37%</b>	<b>0.5471</b>
511	Range Repair	0.1489	1.0226	2.26%	2.0353		ALL ITEMS	<b>1.0000</b>	<b>1.1049</b>	<b>10.49%</b>	<b>0.3111</b>
512	Roof Repair	0.0230	1.0924	9.24%	3.1669						
513	Air Conditioner Repair	0.0423	1.0382	3.82%	2.7424						
514	Floor Maint.#1,Studio	0.0009	1.0121	1.21%	3.6914						
515	Floor Maint.#2,1 Br.	0.0019	1.0078	0.78%	3.4713						
516	Floor Maint.#3,2 Br.	0.0174	1.0112	1.12%	3.4940						
518	Linen/Laundry Service	0.2145	1.0150	1.50%	1.5058						
	CONTRACTORSERVICES	<b>0.1000</b>	<b>1.0291</b>	<b>2.91%</b>	<b>0.5469</b>						

## 8. Expenditure Weights and Price Relatives, Lofts, 2001

Spec #	Item Description	Weights	Price Relative	Spec #	Item Description	Weights	Price Relative
101	TAXES	<b>0.2454</b>	<b>1.0545</b>		ADMINISTRATIVE COSTS,LEGAL	<b>0.1122</b>	<b>1.0161</b>
201	Payroll, Bronx, All	0.0000	1.0178	601	Management Fees	0.7977	1.0447
202	Payroll, Other, Union, Supts.	0.2920	1.0340	602	Accountant Fees	0.1546	1.0498
203	Payroll, Other, Union, Other	0.0000	1.0351	604	Newspaper Ads	0.0054	1.0268
204	Payroll, Other, Non-Union, All	0.5373	1.0520	605	Agency Fees	0.0067	1.0374
205	Social Security Insurance	0.0464	1.0330	606	Lease Forms	0.0114	1.0177
206	Unemployment Insurance	0.0074	1.1143	607	Bill Envelopes	0.0131	1.0285
207	Private Health & Welfare	0.1169	1.0456	608	Ledger Paper	0.0111	1.0000
	LABOR COSTS	<b>0.1132</b>	<b>1.0401</b>		ADMINISTRATIVE COSTS - OTHER	<b>0.1045</b>	<b>1.0443</b>
301	Fuel Oil #2	0.3271	1.3156	701	INSURANCE COSTS	<b>0.1528</b>	<b>1.0486</b>
302	Fuel Oil #4	0.5570	1.3825	801	Light Bulbs	0.0378	1.0135
303	Fuel Oil #6	0.1159	1.3455	802	Light Switch	0.0482	1.0000
	FUEL	<b>0.0668</b>	<b>1.3563</b>	803	Wet Mop	0.0415	1.0435
401	Electricity #1, 2,500 KWH	0.0130	1.0144	804	Floor Wax	0.0399	1.0032
402	Electricity #2, 15,000 KWH	0.1664	1.0198	805	Paint	0.2219	1.0194
403	Electricity #3, 82,000 KWH	0.0000	1.0710	806	Pushbroom	0.0362	1.0000
404	Gas #1, 12,000 therms	0.0047	1.4235	807	Detergent	0.0323	1.0361
405	Gas #2, 65,000 therms	0.0498	1.5686	808	Bucket	0.0417	0.9595
406	Gas #3, 214,000 therms	0.1263	1.5795	809	Washers	0.0998	0.9998
407	Steam #1, 1.2m lbs	0.0168	1.2236	811	Pine Disinfectant	0.0473	1.0095
408	Steam #2, 2.6m lbs	0.0063	1.2470	812	Window/Glass Cleaner	0.0512	1.0000
409	Telephone	0.0111	0.9768	813	Switch Plate	0.0456	1.0000
410	Water & Sewer - Frontage	0.5027	1.0100	814	Duplex Receptacle	0.0343	1.0000
411	Water & Sewer - Metered	0.1028	1.0106	815	Toilet Seat	0.0998	1.0147
	UTILITIES	<b>0.0805</b>	<b>1.1182</b>	816	Deck Faucet	0.1224	1.0000
501	Repainting	0.4138	1.0281		PARTS AND SUPPLIES	<b>0.0234</b>	<b>1.0081</b>
502	Plumbing, Faucet	0.1375	1.0416	901	Refrigerator #1	0.0919	1.0184
503	Plumbing, Stoppage	0.1242	1.0395	902	Refrigerator #2	0.4754	1.0140
504	Elevator #1, 6 fl., 1 e.	0.0548	1.0372	903	Air Conditioner #1	0.0172	1.0050
505	Elevator #2, 13 fl., 2 e.	0.0361	1.0326	904	Air Conditioner #2	0.0220	1.0074
506	Elevator #3, 19 fl., 3 e.	0.0210	1.0285	905	Floor Runner	0.0884	1.0025
507	Burner Repair	0.0386	1.0235	906	Dishwasher	0.0478	1.0000
508	Boiler Repair, Tube	0.0458	1.0337	907	Range #1	0.0456	1.0075
509	Boiler Repair, Weld	0.0330	1.0526	908	Range #2	0.2116	1.0026
510	Refrigerator Repair	0.0127	1.0257		REPLACEMENT COSTS	<b>0.0186</b>	<b>1.0097</b>
511	Range Repair	0.0135	1.0226				
512	Roof Repair	0.0544	1.0924				
513	Air Conditioner Repair	0.0088	1.0382				
514	Floor Maint.#1, Studio	0.0003	1.0121				
515	Floor Maint.#2, 1 Br.	0.0006	1.0078				
516	Floor Maint.#3, 2 Br.	0.0049	1.0112				
	CONTRACTOR SERVICES	<b>0.0826</b>	<b>1.0363</b>		ALL ITEMS	<b>1.0000</b>	<b>1.0684</b>

## 2001 Commensurate Formula Addendum

### Background

For the past decade or so, each PIOC report has included three so-called "commensurate" formulae. These formulae are not required by law, and the latter two didn't exist through the first twenty or so years of the RGB's existence. In the 1970s, the PIOC consultants (at that time the RGB had no research staff) devised the first of the commensurate formulae as an analytical tool to assist RGB members to distill the various PIOC numbers and determine what guidelines would (1) keep landlords relatively "even," while (2) protecting tenants from "unconscionable" rent increases.

More technically stated, the "commensurate" combines various data concerning operating costs, revenues, and inflation into a single measure that gives "an" estimate (note: not "the only" estimate) of the degree to which rents would have to be adjusted so that net operating income ("NOI") in stabilized buildings remained constant. In all instances, though, the original and subsequent two formulae were intended only as casual "starting points" for any member who wished to consider them.

(It is important to note that "net operating income" does not necessarily equate to "net profit." Determining profit would require an analysis of such things as capital placed at risk, financing costs and any pertinent appreciation/depreciation.)

### Original Formula

The original formula assumes that if a landlord netted \$10 on a unit in 1969, rents should be adjusted so the landlord would net the same \$10 on the same unit in 1979, 1989 and 1999. By not taking inflation into account, though, this formula suggests results that many Board members deemed impractical.

The original formula additionally does not take into account the actual mix of one- and two-year lease terms. Instead, this formula answered the following questions: (1) if all tenants chose a one-year lease, what rent adjustment would be needed in order to insure that the net operating income, unadjusted for inflation, remained constant; and (2) if all tenants chose a two-year lease, factoring in projected cost increases, what adjustment would be needed? Since Housing & Vacancy Survey ("HVS") data shows that only about 70% of all stabilized units receive adjustments each year, this formula needed revision.

Moreover, while the suggested starting point for one-year leases is based on the known numbers reflected in the PIOC, the suggested starting point for two-year leases is based on assumptions and estimates for the coming year. Understandably and unavoidably, any significant "real life" deviation from those assumptions and estimates will affect the appropriateness of the two-year projections. Among these multi-varied factors would be a sharp rise or fall in oil prices, inflation, taxes and water rates, labor costs, interest rates, rent collection gains/losses due to changes in the economy, etc.

Thus, in the early 1990s the RGB staff devised two additional formulae.

### Second Basic Formula

The second formula takes into account the mix of lease terms, or as noted above, the fact that only 70% of stabilized units receive rent adjustments each year. HVS data indicates that approximately two-thirds of tenants opt for two-year leases, while one-third opt for one-year leases. Moreover, approximately 10% of rent-regulated units become vacant each year. Thus, of the approximately 90% percent of leases that are ultimately renewed, 60% are renewed each year (i.e. 30% represent one-year leases and 30% representing half the two-year leases). This 60% renewal number plus the 10% of units that become vacant (and presumably are re-let) add up to the 70% figure. Similar to the original formula, the second method preserves landlord's net operating income, but does not compensate for NOI's erosion due to inflation. (See note)

### Third Basic Formula

The third formula takes into account both the 70% issue (mix of lease terms) and inflation. (See note)

### Impact of Vacancy Allowance

Debates have arisen whether the "vacancy allowance" mandated by state law somehow should be factored into the formulae. The RGB's 1997-98 Recent Movers Study found that despite state law permitting a vacancy allowance of up to 20% (and more, if the prior tenant had been a particularly long-term one), owners citywide were able to obtain from incoming tenants rents reflecting vacancy increases of 12% at the median. As usual, owners of units in "core Manhattan" were able to obtain huge vacancy increases, which were offset by the far more modest vacancy allowances that owners of units in other parts of the city were able to command.

Thus, as to formulae that consider the impact of the vacancy allowance, a 12% median vacancy increase is assumed.

### Manner of Calculations

Last year the staff calculated results based upon five different formulae, all variations of the three basic formulae. Although the results of these formulae are non-binding analytical tools that any member can choose to apply or discount, the staff attempts to calculate them according to certain guidelines. Sometimes, though, it is difficult to apply these guidelines, and seemingly disparate numbers may result.

Foremost, the staff tries to produce for each formula numbers that are "policy neutral" between one- and two-year leases. That is, the suggested numbers optimally are not so skewed as to encourage (intentionally or not) tenants to overwhelmingly opt for either a one- versus a two-year lease. As example the staff never will suggest guidelines of 2% (one-year) and 13% (two-year) (presumably resulting in most tenants opting for one-year leases) or 5% and 6% (presumably resulting in most tenants opting for two-year leases), even though according to the RGB's complex formulae, both sets of numbers theoretically could arrive at the same desired NOI result.

Secondly, the staff endeavors for simplicity's sake to use whole or half-numbers: i.e. 3.5% and 5.0%. Therefore, even if a "more exact" suggestion might be 3.486% and 5.102%, the staff will suggest more rounded numbers.

### Applicability

These formulae and their suggested starting points do not apply to any RGB report except the PIOC. Thus, members are at liberty to consider – and should consider – the impact of other RGB reports in determining rent adjustments they deem appropriate. Indeed, too often members, tenants, owners and those in the media seemingly assume that (1) rent adjustments must be based entirely or principally upon the PIOC, and (2) the suggested commensurate formulae are somehow binding upon RGB members. Both assumptions are categorically wrong. Moreover, as all these formulae have some limitations, and the staff constantly is trying to devise more accurate alternatives.

### Titling The Formulae

For ease of reference, the formulae have been renamed. Where appropriate the staff has noted whether vacancy allowance considerations have been included.

(1) "Non-inflation, non-renewal rate adjusted;" and

(2) "Non-inflation, but renewal rate adjusted;" and



(3) "Inflation and renewal rate adjusted."

Thus, based upon a PIOC of 8.7% and an estimated PIOC for 2002 of 2.1% (first formula only), the five commensurate formulae results are as follows:

**(1) Non-inflation, non-renewal rate adjusted:**

One-Year Lease: 5.2%

Two-Year Lease: 5.9%

**(2) Non-inflation, but renewal rate adjusted (vacancy factor included):**

One-Year Lease: 4.5%

Two-Year Lease: 8.0%

**(3) Non-inflation, but renewal rate adjusted (no vacancy factor):**

One-Year Lease: 6.5%

Two-Year Lease: 11.0%

**(4) Inflation and renewal rate adjusted (vacancy factor included):**

One-Year Lease: 6.5%

Two-Year Lease: 10.5%

**(5) Inflation and renewal rate adjusted (no vacancy factor):**

One-Year Lease: 9.0%

Two-Year Lease: 13.0%

It is the RGB's collective duty to consider the PIOC, perhaps the various commensurate formulae, the findings of the other staff reports, the testimony presented at the Board's various meetings, the statements offered at the public comment sessions, and any other pertinent factors to determine appropriate rent adjustments.

Edward S. Hochman

*Chairman*

**Note:** The following assumptions were used for the second and third formulae:(1) The required increase in landlord revenue is the sum of the increase due to increased costs and the impact of inflation on NOI. The increase in revenue due to costs is 60% of the 2001 PIOC increase of 8.7%, or 5.2%. The 60% figure is the most recent ratio of average operating costs to average income in rent stabilized buildings. The increase in revenue due to the impact of inflation on NOI is 40% times the latest 12-month average increase in the CPI (3.1%) or 1.2%. Thus, the total increase in landlord income required is 6.4%.(2) Assumptions regarding lease renewals were derived from the 1999 Housing and Vacancy Survey. These terms are only illustrative. Other combinations of terms could produce the 6.4% increase in landlord revenue.