

# The Rent Guidelines Board 1997 Price Index of Operating Costs

April 28, 1997

## Introduction

Much like the Consumer Price Index (CPI), the Price Index of Operating Costs for Rent Stabilized Apartment Buildings (PIOC) measures the price change in a market basket of goods and services. But while the CPI examines changes in consumers' "cost of living", the PIOC gauges changes in the operating and maintenance costs of stabilized buildings. By measuring and aggregating many types of cost changes - real estate taxes, attorney fees, toilet seats, and dozens of other items - the PIOC shows how landlords' building maintenance costs have been affected over the previous year.

The original PIOC expenditure weights and market basket were devised by the U.S. Bureau of Labor Statistics (BLS) which was retained by the RGB as the PIOC contractor from 1970 to 1981. From 1982 to 1990, the PIOC was prepared by private consulting firms. In 1991, the RGB staff's growing expertise and familiarity made it possible to move the PIOC "in house."

This is the seventh year that the RGB staff has produced the price index and the second year that the index has been undertaken without the assistance of Speedwell Inc. In previous years Speedwell had prepared the tax and water/sewer components of the PIOC. RGB staff's growing computer expertise made it possible to take on these final elements of the price index last year.

The PIOC consists of several surveys, each designed to measure changes in one or more types of operating cost. These are described in the following sections of the report.

## Owner Survey

The owner survey gathers information on management fees, insurance, and non-union labor from building managers and owners. Survey forms, accompanied by a letter describing the purpose of the PIOC, were mailed to the owners or managing agents of stabilized buildings. If the survey form was returned, the owner/manager was contacted by an interviewer to verify the information and to obtain additional information if necessary. All of the price quotes of the owner/managing agents were confirmed by calling the insurance and management companies and non-union employees.

The sample frame for the Owner Survey included nearly 40,000 stabilized buildings registered with DHCR in 1994. A stratified sampling scheme was used to choose 6500 addresses from this pool for the owner mailing. The number of buildings chosen in each borough was proportional to the concentration of stabilized buildings in that borough. Roughly 12% of the surveys mailed out were returned to the RGB. A total of 453 of these contained information which was used. The number of verified price quotes in 1996 and 1997 for the Owner Survey is shown in the appendix.

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

**2.4%**

## WHAT'S NEW

- ✓ The Price Index of Operating Costs for Rent Stabilized Apartment Buildings (PIOC) rose 2.4% this year, in line with last year's projection.
- ✓ No component had a particularly disproportionate effect on the PIOC. Increases ranged from 0.4% (Fuel) to 3.9% (Administrative 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 this year (3.0%) is higher than the PIOC because fuel costs were largely unchanged.
- ✓ The Price Index for Apartments is projected to increase 1.8% next year.
- ✓ Traditionally, RGB staff has computed a "commensurate rent increase" based on the PIOC. The commensurate is the rent increase needed to compensate landlords for increases in O&M costs while maintaining net operating income at a constant level in nominal dollars. Based on this year's increase in the PIOC and next year's PIOC projection, the commensurate is 1.6% for a one year lease and 2.2% for a two year lease (see page 11 for details and alternate versions of the commensurate).

## Fuel Oil Vendor Survey

Fuel price information has been gathered on a monthly or bi-monthly basis for the past several years. 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). Calling vendors each month minimizes the likelihood of misreporting and also reduces the reporting burden for the companies which don't care to look up a year's worth of prices. Finally, the monthly survey shifts some staff work out of the very busy Spring period. Only a few vendors declined to participate on a monthly basis. Some of these did agree to provide a year's worth of data in April 1997. The number of fuel quotes gathered this year was comparable to last year and is contained in the appendix.

## Real Estate Tax Computations

A list of rent-stabilized properties was provided to the Department of Finance, which "matched" this list against its records to provide data on assessed value, tax exemptions and tax abatements for approximately 35,000 buildings in FY 1996 and FY 1997. A new and more up-to-date list of rent-stabilized buildings was used this year - it included buildings which registered with the Division of Housing and Community Renewal in 1994.

The Finance Department data was used to compute a tax bill for each stabilized building in FY '96 and FY '97. The change computed for the PIOC is simply the percentage increase in aggregate tax bills from FY '96 to FY '97, weighted by the percentage of rent-stabilized units in each building.

## 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, toilet seats) and Replacement Costs (e.g. refrigerators). As in prior years, an effort was made to update the vendor database 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 procedures used for gathering price quotes were unchanged from prior years. The number of price quotes was about the same as in 1996. For a detailed description of the items priced and the number of price quotations obtained for each item, refer to the appendix.

## 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 prices.

## *Change In Costs for Rent Stabilized Apartment Buildings, April 1996 to April 1997*

Taxes	2.4%
Labor Costs	2.3%
Utilities Costs	2.9%
Fuel Costs	0.4%
Contractor Services	3.4%
Administrative Costs	3.9%
Insurance Costs	1.9%
Parts & Supplies	1.5%
Replacement Costs	1.0%
All Costs	2.4%

## Price Index Components

### Taxes

**2.4%**

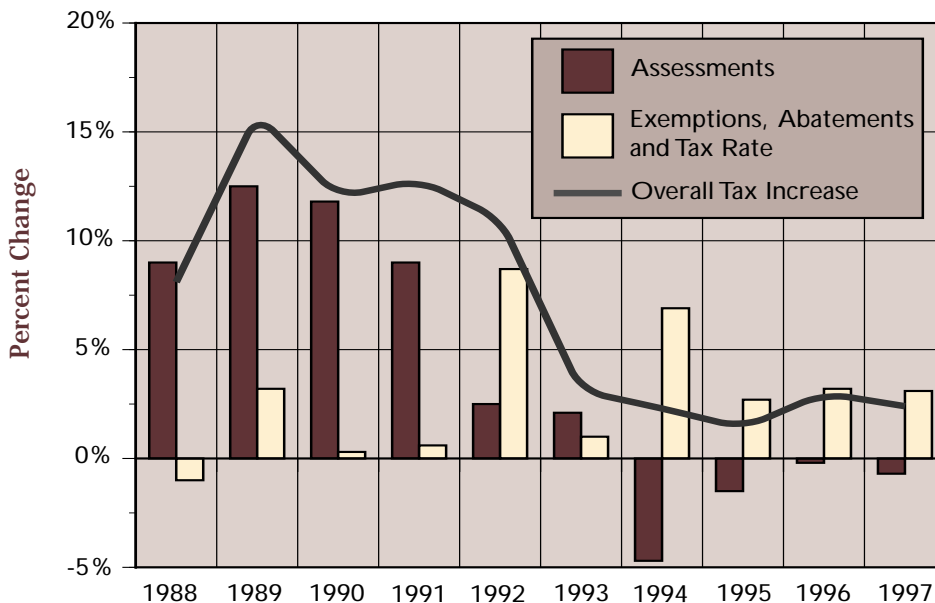
The tax component is based entirely on real estate taxes. The change in taxes is estimated by comparing aggregate taxes levied on rent-stabilized apartment houses in FY 1996 and FY 1997 (For additional detail on how the tax computation compares to last year, see the earlier section “Real Estate Tax Computations”). The tax data was obtained from the Department of Finance.

Real estate taxes were up modestly this year, rising 2.4%. The change in taxes was almost entirely due to a 2.3% increase in the tax rate. Expiring tax abatements and exemptions had little impact on taxes this year, and assessments were largely unchanged.

- **Tax Rate** – Although the tax levy for all properties in the city (commercial and residential) has not increased for several years, the distribution of the levy among property classes has shifted from year to year. In recent years, more of the tax burden has fallen on Class Two, which contains the vast majority of rent-stabilized properties.

The increase in the tax rate for Class Two properties is a result of a state law which requires the tax levy to be distributed on the basis of class shares. More specifically, a large decline in the value of commercial properties compared to residential properties has shifted some of the tax burden from Class Four to other property classes, including Class Two.

### Billable Assessments Declined for the Fourth Consecutive Year.



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

Source: New York City Department of Finance

Intervention by the Mayor and the City Council has softened the blow to rent-stabilized properties somewhat. In FY 1996 the tax rate would have risen 5.6% had the City Council not intervened and limited the increase for Class Two properties to 2.4%. A similar course of events led to an increase in the Class Two tax rate of 2.3% this year.

- **Assessments** – The assessed valuations of rent-stabilized buildings rose dramatically in the late '80's through 1991, increasing 8% or more each year (see chart previous page). In 1992 and 1993 the increase in valuations 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 FY94 and 1.3% in FY95.

Last year billable assessments were fairly stable, falling a mere two-tenths of a percent. The decrease in valuations was similar this year - a drop of seven-tenths of a percent. While assessments were largely unchanged in Manhattan, Queens, and Brooklyn, there was a large decrease in valuations in the Bronx. Reductions in assessments are particularly apparent in the South Bronx.

- **Abatements and Exemptions** – The number of buildings with new tax abatements fell once again - the sixth consecutive yearly decline. Even so, the tax benefits of new and existing abatements exceeded expiring abatements. As a result, the change in tax abatements worked to reduce the property tax burden by 0.3%.

Expiring tax exemptions had a greater impact on the real estate tax component of the Price Index than abatements. In the city as a whole, expiring exemptions added 0.8% to tax bills. Given the lack of new investment in rental housing in recent years we expect expiring exemptions to continue to add to landlords' tax burden in the near future.

## Labor



2.3%

As predicted in last year's PIOC projection, increases in labor costs have continued to moderate, making this year's overall change of 2.3% the lowest since 1976. The price index measure of labor costs includes union and non-union salaries and benefits in addition to changes in social security and unemployment insurance. The cost of unionized labor comprises two thirds of the Labor component and one-tenth of the entire price index.

The rate of increase in the labor component started declining in the mid-eighties and this year's growth rate is less than half that measured ten years ago. This notably low increase in labor costs reflects both a slowdown in benefit growth after a period of striking increases in the early 90's and a much lower growth rate for wages reached through union contracts.

## Utilities



2.9%

The utilities component consists primarily of electricity, natural gas, and water & sewer charges. Telephone and steam costs are a small part of the utilities index. In the case of most utility components, changes in price are measured using the PIOC specifications (i.e. the quantity of electricity, steam etc. being purchased) and the changes in rate schedules. Water/sewer costs are based on billings obtained from the City's Department of Environmental Protection (DEP).

This year, utilities increased 2.9%, led by an increase of 6.5% in water sewer fees. Most other utility costs showed modest decreases.

Through 1995, Speedwell Inc. was responsible for calculating changes in real estate taxes and water sewer fees. Speedwell obtained water/sewer billing information on 30,000+ properties from the Department of Finance's Open Balance Register. Finance was responsible for billing customers even though the water system was operated by DEP. In 1995 responsibility for billing was assumed by DEP, rendering instantly obsolete all of Speedwell's computer programs for calculating the change in water/sewer costs.

Last year the RGB assumed the task of calculating changes in water/sewer costs. The RGB staff worked with DEP over a six month period to define an "extract" from the DEP billing records, and by late March data on frontage and metered bills had been obtained for roughly 32,000 rent-stabilized properties. Unfortunately, after working extensively with this data RGB staff concluded that the information from the DEP files for properties with metered bills was unreliable, and that no amount of remedial work would make it acceptable. Thus, the increase in water/sewer costs from 1995 to 1996 in last year's price index was based ENTIRELY on frontage bills for 22,000 rent-stabilized properties.

With the expectation of improvements in the DEP meter reading process, the RGB requested data on water sewer costs for FY 1996 and FY 1997. Staff worked with DEP for several months and a data extract was obtained in late March for approximately 40,000 rent-stabilized buildings.

After much scrutiny of this data, RGB staff decided it was unusable. Although approximately 70% of the frontage properties in our list had water/sewer bill increases of 6.5%, as expected, nearly one-sixth had increases which were far larger, many in the 20 to 30% range. The problem this year was not inaccurate meter readings, but the methods DEP has used to credit toilet rebate payments and frontage charge adjustments.

Consultations with DEP and examination of individual building records revealed that nearly all of the buildings with increases greater than 6.5% participated in the toilet rebate program, and should have had increases of LESS than 6.5% rather than the 20-30% increase which showed up in our data. The problems with the data were due to peculiarities of the DEP billing process and the computer program designed to "extract" the data for rent-stabilized properties.

Given the problems with the water/sewer data, we were forced to use a less than optimal measure in the PIOC this year - the 6.5% increase in water/sewer rates. While there is no doubt this is a proper measure of the MEDIAN increase for rent-stabilized buildings, it is not precisely what the PIOC attempts to measure, which is the aggregate increase (or mean increase) in water/sewer costs. Nevertheless, it is the best measure available and is used in this year's price index.

Our experience working with the water/sewer data over the past two years has made it apparent that existing PIOC methodology is inadequate and must be completely overhauled before next year's index is undertaken. RGB staff will begin work on this project during the summer.

Natural gas costs were largely unchanged this year. The PIOC measures gas, like fuel oil, largely on a "cost-weighted" basis which takes both the price and heating degree days into consideration. Although the PRICE of natural gas increased, the total COST of heating with natural gas remained constant due to relatively warm winter weather.

The price of electricity fell by approximately 3%. This small decrease is partly due to the traditional method of measuring the electricity from April-to-April rather than on a cost-weighted basis. If electricity was measured on a cost-weighted basis, like fuel oil and natural gas, this component would have shown a small increase.

## Fuel



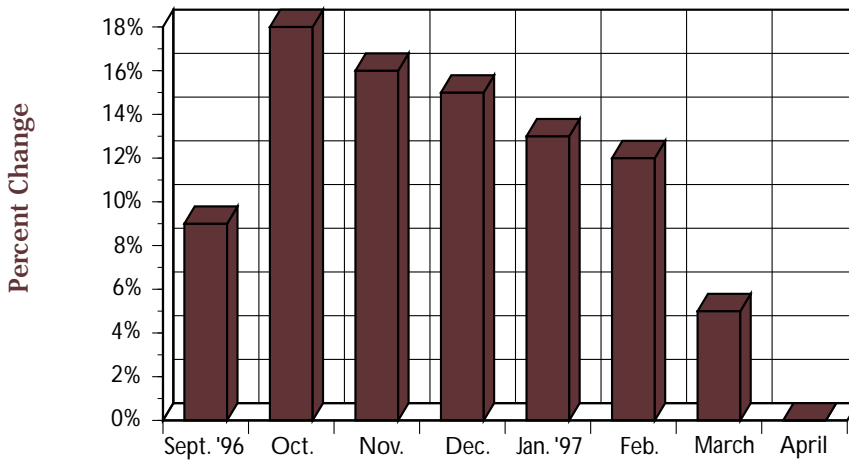
0.4%

To calculate changes in fuel oil costs staff gathers monthly price data from fuel oil vendors and weights the data using a degree day formula to account for changes in the weather. The number of degree days is a measure of heating requirements.

Last year, cold weather, greater demand for fuel, and refiners' search for additional sources of oil in the early Spring led to skyrocketing prices and costs. Overall, PIOC fuel costs were up 30% last year.

In October '96, it appeared that a replay of the previous year's events was certainly a possibility. Fuel oil reserves were low and prices were rising rapidly. As our "Income and Expense Brief" of December 10, 1996 noted, oil prices were at a six-year high and property owners were "understandably edgy" about the upcoming winter.

### Oil Prices Peaked Early in the Heating Season



*Change in Monthly #2 Fuel Oil Price Compared to Previous Year*

Source: Price Indices of Operating Costs, 1996 and 1997.

Fortunately, the increase in prices in the Fall and early Winter abated later in the heating season. Refiners were able to build supplies of heating oil abetted by warmer than normal weather. As the chart above shows, the increase in fuel costs over the previous year declined steadily over the course of the heating season.

Overall, fuel prices were up only about one half percent (0.4%). Of the three grades of fuel oil, #2 saw the most change (3.2%) while #4 was basically unchanged (0.6%), and #6 decreased slightly (-1.0%). The PIOC includes a different weight for each of the fuel grades which reflects the percentage of rent-stabilized units using the particular type of fuel oil. In the current year's PIOC, #6 oil accounts for half of the fuel oil component (53%) while #4 oil accounts for 25% and #2 oil 22%.

### Contractor Services

**3.4%**


Contractor Services increased 3.4% in 1997. Repainting and plumbing costs, by far the most important items in this component, had low to moderate increases. However, nearly every other item saw greater increases in costs which propelled Contractor Services to the highest rate of growth since 1991.

Repainting costs, which comprise a whopping 40% of the Contractor Services component, continued a recent trend of low increases rising only 2.1%, comparable to last year's 2.4%. While several painters surveyed this year noted that the price of paint and labor had increased, most maintained prices in order to stay competitive.

This year's increase in costs was affected considerably by a 2.6% increase in plumber's fees and, to a lesser extent, high increases in monthly service contracts for elevator repairmen. Plumbers reported little or no change in the cost of labor and supplies while elevator maintenance companies dealt with a labor dispute, resulting in an 10.9% increase in costs.

Even though the winter of 1996-97 was much milder than last year's winter of record snowfall, boiler and roof repair prices went up 3.1% and 2.6% respectively. Boiler repair increases were not due to the weather but rather the increase in cost of materials, specifically the cost of boiler tubes. A majority of the roofers reported no change in prices and the few that did noted that increased labor and material costs were the catalysts for higher bills.

### Administrative Costs


 Administrative Costs rose 3.9%, which is 0.4% higher than last year's increase. Fees paid to management companies, accountants, and attorneys comprise the bulk of this component.

Management companies, which tend to base their fees on rental occupancy, had the highest increase (4.6%). These companies raised their prices due to higher rents and fewer vacancies in the properties they manage.

Accountants raised prices 3.5%, while attorney fees rose only 2.3%. While most firms' fees remained constant from year to year, several accountants and attorneys reported that annual fee increases and higher overhead costs were the reasons for escalating wages.

In last year's PIOC we found that "during the last five years, administrators have had higher increases than their counterparts, skilled contractors." This trend has continued for a sixth consecutive year. However, the wide discrepancy in increases seen last year (1.7%) narrowed in 1997 to just 0.5%. While the strong rental market has boosted Administrative Costs, the strengthening economy, which is linked to a greater degree to the wages of skilled contractors, has had an impact on the Contractor Services component, which rose from 1.8% in 1996 to 3.4% in 1997.


### Insurance

 In sharp contrast to the experience of the past few years, Insurance Costs rose only 1.9% this year, the lowest increase observed since 1994. 421 buildings supplied the Board with insurance data, 89 (21%) of which reported lower costs as opposed to 220 (52%) which reported higher costs. Rate hikes fueled the little cost growth that occurred, with nearly one-third (137) of this year's


respondents claiming higher rates, as opposed to one-sixth (70) that reported rate declines. A significant number of buildings (17%) also increased the value of their insurance policies, causing their overall costs to climb by 3.1%.

Last year, a number (6%) of building owners reported that insurers were withdrawing lead paint coverage from their policies, over concern for the potential costs of liability for lead related health problems. This year, slightly fewer (4%) respondents reported similar retraction in coverage. The removal of lead liability coverage does not reduce the cost of insurance. Instead, the total insurance expenses of respondents who had their lead coverage withdrawn rose by 3% this year.

### Parts and Supplies

 The overall increase in the Parts and Supplies component was 1.5%. Increases in this component have been fairly consistent and generally very low since the early '80's. This year is no exception. Price increases ranged from a high of 5.5% (deck faucet) to a decrease of 1.7% (light switch).

### Replacement Costs

 The Replacement Costs item 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%.

### Rent Stabilized Hotels

The hotel price index methodology was first developed by the consulting firm USR&E based on its 1985 Price Index for Hotels. It includes separate indices for each of the three categories of hotels (due to their dissimilar operating cost profiles) and an index for all hotels.

The price index for all hotels rose 1.9% this year, somewhat less than the increase in the apartment price index. The primary differences between the hotel index and the apartment index were in the taxes and utilities components. Taxes rose only 1.5% overall (vs. 2.4% in apartment buildings) due to a slight decrease in taxes for large hotels. Utilities

actually fell 1% (vs. a 2.9% increase in the apartment sector) because hotels spend less of their budget on gas and water/sewer costs and more on electricity. Electricity costs fell approximately 3%.

Among the different categories of hotels, the increases were: Hotels 1.4%, Rooming Houses 1.7%, and SROs 2.0%. The smaller rate of increase for the "Hotels" category was largely due to a slight decrease in taxes for these buildings (vs. increases of 3.3% and 2.4% for Rooming Houses and SROs respectively). In addition, labor (which rose modestly) is a large portion of the cost of running Hotels.

## Rent Stabilized Lofts

The increase in the Loft Index this year was 2.5%, just slightly larger than the increase for apartments. Fuel costs were up somewhat more in lofts than in other rent-stabilized buildings, but this disparity was evened out by a below average increase in legal fees, which comprises a large part (11%) of the loft index. In all other respects, increases in the Loft Index were quite similar to increases in the Apartment Index.

## 1997-98 PIOC Projections

Estimating change in the PIOC has been relatively difficult in recent years. Volatile weather patterns combined with uncertain political conditions have destabilized the price of fuel oil, natural gas and electricity to the point where the entire index has fluctuated by six percentage points over one year. Drastic and somewhat cyclical shifts in local fuel prices often mask smaller changes in non-fuel related costs, obscuring the long term movement of the PIOC.

This year, however, operating costs in rent-stabilized apartment buildings were fairly stable, increasing by 2.4% versus our projection of 2.7%. Property taxes, labor and utility costs all rose less than estimated, while the price of fuel, contractor services and administrative costs grew faster than anticipated. We expect operating costs to remain stable in the coming year, rising by only 1.8% due to relatively flat labor costs and utility rates (except for water and sewer fees) along with slightly declining fuel prices. The "core" PIOC, which measures long term local trends by factoring out shifts in fuel prices, gas, and electricity rates, should rise slightly more next year, by 2.6%, due to relatively rapid increases in taxes, contractors and administrative costs.

### Taxes +3.0%

Property taxes comprise roughly a quarter of the PIOC. From the mid-1980's to the early 1990's, taxes often rose faster than the overall PIOC. Recently however, intervention by the City Council in the determination of levy shares and tax rates has dampened this trend, and will probably continue to do so this year.

New York City's tax burden is redistributed every year among various types of property in the city. Since 1990, Class Two properties (which include rent stabilized buildings) have assumed a greater share of the city's tax levy, mainly because of sharp drops in the value of office and retail properties. While commercial real estate, particularly in Manhattan, is regaining value, Class Two properties are expected to carry a greater portion of the city's tax levy next year. However, the rising value of many apartment buildings should preclude the need to raise tax rates on Class Two properties more than two-tenths of a percentage point (.2%).

### *Change In Costs for Rent Stabilized Hotel Buildings, April 1996 to April 1997*

Taxes	1.5%
Labor Costs	3.2%
Utilities Costs	-1.0%
Fuel Costs	1.9%
Contractor Services	3.9%
Administrative Costs	3.9%
Insurance Costs	1.9%
Parts & Supplies	1.0%
Replacement Costs	1.4%
All Costs	1.9%

### *Change In Costs for Rent Stabilized Loft Buildings, April 1996 to April 1997*

Taxes	2.4%
Labor Costs	2.3%
Utilities Costs	2.9%
Fuel Costs	1.3%
Contractor Services	3.4%
Administrative Costs, Legal	2.3%
Administrative Costs, Other	4.1%
Insurance Costs	1.9%
Parts & Supplies	1.5%
Replacement Costs	1.0%
All Costs	2.5%



Class Two property includes co-ops and condominiums as well as apartment buildings. 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 for rental buildings to increase by only 3.1%, while billables for 4-10 family buildings are expected to increase by 4.9%. These are the largest projected increases observed since the early 1990's. However, preliminary assessments are slightly imprecise. Billable assessments should actually rise by 2.6% and 4.4% respectively for rentals and 4-10 unit properties. In sum, assessments for stabilized buildings, which are predominantly classified as "rental" buildings, should increase by 2.8% from 1996 to 1997.

Overall, a fairly flat tax rate for Class Two properties, combined with 2.8% growth in billable assessments for such properties should produce roughly 3% growth in property tax bills for rent-stabilized buildings next year.

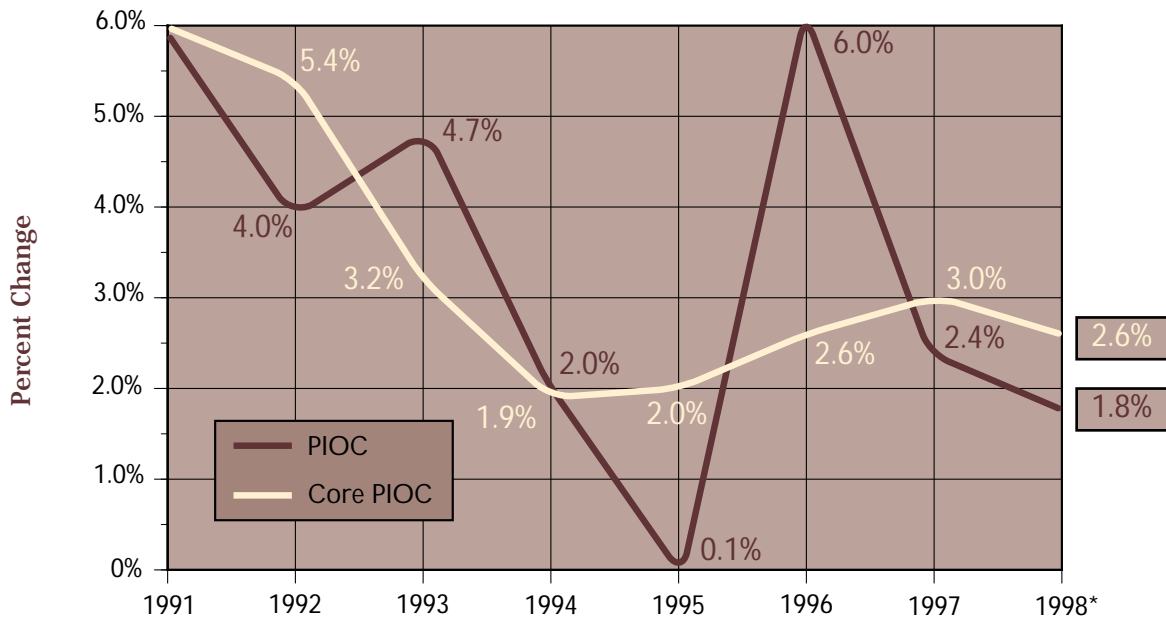
### Labor Based Components

(Labor Costs +1.4%, Administrative Costs +3.7% and Contractor Services +2.5%)

As noted above, 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 cover management, legal and accounting fees.

Growth in wages and benefits this past year was very slight by historical standards, and was the lowest rate observed since 1976. The signing of a new contract with one of the primary unions representing building service workers should not change this trend. This agreement calls for all wage increases for currently employed workers to be offset by lower starting salaries for new employees and part-time help, combined with little or no increase in health care or pension benefits. Along with relatively modest growth in non-union wages as well as benefits, Labor Costs should rise by only 1.4%.

The "Core" PIOC Has Fluctuated Little Since 1994



\* Note: The percent change for 1998 was estimated.

Source: Price Indices of Operating Costs, 1991-1997

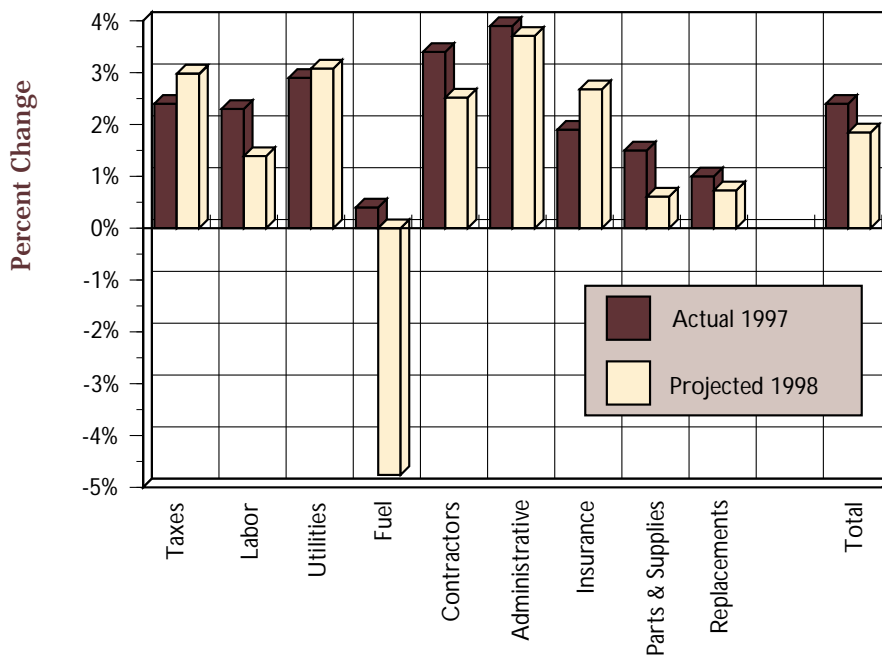
Increases in "Administrative Costs" and "Contractor Services" are projected by averaging the growth rates observed in each component over the past three years. Administrative costs have been fairly stable over the decade, and should rise by 3.7% over the next year. The price of contractor services has been more variable in the recent past, but should increase by 2.5% next year.

**Fuel -4.8%**

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 drawbacks (and barring unforeseen natural or geo-political events) fuel oil prices in New York City should fall 4.8% from their currently high level in the coming year due to a variety of factors. This drop will be mainly propelled by increases in world wide oil production, which will meet rising demand caused by continued, though weaker, growth in the nation's economy.

The Energy Information Administration (EIA) currently projects that imported oil prices will fall from \$23 per barrel to roughly \$20.50 between the fourth quarter of 1996 and the fourth quarter of 1997. This forecast is driven by an assumption that rising world-wide demand for oil will be met by increased production, primarily from non-OPEC producers who will continue to become more efficient. It also assumes that growth in national Gross Domestic Product (GDP) will remain at 2.7% through 1997 before declining to 2% in 1998, causing US oil demand to stay relatively constant. However, "normal" winter weather, which is colder than that experienced this year, should temper declines in fuel oil prices.

**Costs are Projected to Increase Moderately from 1997 to 1998**



Source: Price Index of Operating Costs, 1997; PIOC projection for 1998

Overall, using EIA forecasts that increasing global production will fully meet increases in demand, combined with "normal" weather conditions, fuel oil prices in the New York area should decline by 4.8% in 1997.

### Insurance Costs +2.7%

Insurance Costs for rent-stabilized buildings rose very modestly last year, after increasing by more than 5% in 1994 and 1995. Based on the latest three-year weighted average, Insurance Costs should rise by 2.7% over the coming year.

### Utility Costs +3.1%

In the PIOC, the price of electricity, natural gas, water and sewer service, purchased steam, and telephone service are grouped as "Utility Costs". Water and sewer costs alone account for nearly 60% of this index, while electricity and gas comprise another 35% of the category.

Next year the overall price of utilities should rise by 2.9%. The bulk of this growth will come from rising water and sewer rates (6.5%), combined with stable natural gas and electricity prices, which should not increase respectively by more than 0.4% and 0.2%.

The New York State Public Service Commission (PSC) estimates that electricity rates, which dropped slightly in April, will remain stable through 1997. Additionally, the PSC predicts that falling oil prices should depress, or at least stabilize, fuel adjustment charges (FAC's) over the year. Thus, the price of electricity will be stable over the coming year, barely increasing by 0.2%, if climate patterns follow normal trends and the price of fuel behaves as predicted. Future increases will be limited as well by the terms of an agreement recently signed between Con Edison and the PSC, which should lower electrical rates slightly in future years for residential customers. However, since actual price changes in electricity are governed much more by changes in FAC's, the ultimate effect of this agreement on the costs faced by stabilized buildings should be minimal.

Like electricity rates, natural gas rates should remain constant next year, as domestic and worldwide production increases to meet demand. Both Con Ed and Brooklyn Union Gas project stable or declining prices, which should be passed on to their customers, even though increases in wages and transmission costs will dampen total savings. Assuming normal winter conditions, which will bring colder weather than was experienced this year, these factors should ultimately produce negligible

growth in gas rates of 0.4% in New York City over the next year.

During the past ten years, water and sewer rates have grown the fastest of all the components of the Utility Cost category. After many double digit increases, water and sewer rates were frozen from 1993 to 1995. Rates were unfrozen in 1996, and rose by 4.8% in that year and by 6.5% last year. A similar increase of 6.5% should occur over the coming year, given current proposals before the New York City Water Board.

In total, a 6.5% increase in water and sewer charges, combined with slight growth in natural gas prices and stable electricity rates, should cause Utility Costs to rise by 3.1% in 1997.

### Parts & Supplies +0.6%

Parts and Supplies has usually played a very small role in the PIOC, comprising less than 3% of the index in 1997. Over the last three years, growth in this component has been modest, even though such costs increased faster than projected last year. Based on the latest three year average, the cost of Parts and Supplies should increase by 0.6%.

### Replacement Costs +0.7%

This component accounted for about 1% of the entire price index in 1997. This past year, Replacement Costs were stable, increasing by only 1%. According to the current three year price trend, Replacement Costs should rise by 0.7% over the next year.

### Commensurate Rent Increase

Throughout its history, the Rent Guidelines Board has used a formula, known as the "commensurate rent increase", to help determine annual rent increases for rent stabilized apartments. In essence, "the commensurate" combines various data concerning operating costs, revenues and inflation into a single measure indicating how much rents should rise for earnings in stabilized buildings to remain constant in prevailing economic conditions. As such, the different types of commensurate increases described below are estimates, and are primarily meant to provide a foundation, and not a ceiling, for discussion concerning prospective guidelines.

The mathematical character of the commensurate formulae allow them to present a range of guidelines as suitable for preserving the earnings of building owners over one or two years. For example, given conditions indicated in this year's

PIOC and Income & Expense Studies, One Year Guidelines ranging from 1% to 3% and Two Year Guidelines ranging from 2% to 5% would preserve the earnings of building owners.

In its simplest form, the commensurate rent increase is the amount of rent growth needed to maintain landlords' current dollar net operating income (NOI) at a constant level. Given an increase in operating costs of 2.4%, as indicated by the PIOC, the commensurate rent increase for this year is 1.6% for a one year lease and 2.2% for a two year lease.<sup>1</sup>

As a means of compensating landlords for cost increases, the "traditional" commensurate rent increase has two major flaws. First, although the formula is supposed to keep landlords' current dollar income constant, the formula doesn't consider the mix of one and two year lease renewals. Since only two-thirds of leases are renewed in any given year, with a preponderance of leases having a two year duration, the formula does not necessarily accurately estimate the amount of income needed to compensate landlords for past O&M increases.

A second possible flaw of the commensurate formula is that it does not consider the erosion of landlords' income by inflation. By maintaining current dollar net operating income at a constant level, adherence to the formula may cause profitability to decline over time. However, such degradation is not an inevitable consequence of using the commensurate formula.<sup>2</sup>

Two alternatives to the "traditional" commensurate method have been used by the Rent Guidelines Board. The first, called the "Net Revenue" approach, adjusts for the mix of lease terms. While this takes into consideration the types of leases actually signed by tenants, it does NOT adjust landlords' NOI for inflation. Under the "Net Revenue" formula, a guideline which would preserve NOI in the face of this year's 2.4% increase in PIOC is 1.5% for a one year lease and 3.0% for a two year lease.<sup>3</sup>

Another alternative to the commensurate rent increase considers lease terms while adjusting NOI upward to reflect inflation, keeping BOTH O&M and NOI constant. This is commonly called the "CPI Adjusted NOI" formula. A guideline which would preserve NOI in the face of the expected 2.5% growth in the Consumer Price Index and the 1.8% rise in the PIOC is 2.5% for a one year lease and 4.5% for a two year lease.<sup>4</sup>

All of these methods have their limitations. The traditional commensurate increase is artificial and doesn't 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 falling, rather than rising over recent years.

Each of these formulas may be best thought of as a starting point for deliberations. Staff's other research (e.g. the mortgage survey or the I&E study) and testimony to the board can be used to modify the various estimates depending on these other considerations. □

<i>"Traditional"</i> <i>Commensurate Increase</i>	
1 Year Lease	2 Year Lease
1.6%	2.2%

<i>"Net Revenue" Increases</i>	
1 Year Lease	2 Year Lease
1.5%	3.0%

<i>"CPI Adjusted NOI"</i> <i>Increases</i>	
1 Year Lease	2 year Lease
2.5%	4.5%

1. The collectability of legally authorized increases is assumed. Calculating the "traditional" Commensurate Rent Increase requires an assumption about next year's PIOC. In this case we use 1.8%, staff's projection for 1998.

2. Whether profits will actually decline depends on the level of inflation, the composition of net operating income (i.e. how much is debt service and how much is profit), changes in tax laws, and interest rates.

3. The following assumptions were used in the computations: (1) The required increase in landlord revenue is 1.6%, or 66.1% of the 1997 PIOC increase of 2.4%. The 66.1% figure represents the ratio of average audited operating costs to average rents in stabilized buildings; (2) These lease terms are only illustrative. Other combinations of one and two year lease increases could also result in a 1.6% revenue increase. (3) Lease terms were derived from the 1993 NYC Housing and Vacancy Survey. According to the HVS, 29% of all tenants have a one-year lease and 37.2% have two-year leases. As a result, 66.2% of tenants renew their leases in a given year. The increase in landlords' revenue reflects this lease distribution.

4. Note: The NOI was adjusted upward by the most recent yearly increase in the Consumer Price Index, March 1996 to March 1997, which amounted to 2.5%.

## Appendix

### I. PIOC Sample, Number of Price Quotes per Item, 1996 vs. 1997

Spec	Description	1996	1997	Spec	Description	1996	1997
211	Apartment Value	101	98	701	INSURANCE COSTS	430	421
212	Non-Union Super	66	75				
216	Non-Union Janitor/Porter	42	41	801	Light bulbs	5	7
	LABOR COST	209	214	802	Light Switch	6	8
301	Fuel Oil #2	33	32	803	Wet Mop	5	6
302	Fuel Oil #4	9	9	804	Floor Wax	8	9
303	Fuel Oil #6	7	7	805	Paint	12	12
	FUEL COSTS	49	48	806	Pushbroom	6	6
501	Repainting	126	127	807	Detergent	9	8
502	Plumbing, Faucet	38	33	808	Bucket	12	12
503	Plumbing, Stoppage	41	32	809	Washers	11	10
504	Elevator #1	11	10	810	Linens	10	11
505	Elevator #2	11	10	811	Pine Disinfectant	9	7
506	Elevator #3	10	10	812	Window/Glass Cleaner	9	7
507	Burner Repair	15	10	813	Switch Plate	8	8
508	Boiler Repair, Tube	11	10	814	Duplex Receptacle	6	8
509	Boiler Repair, Weld	7	6	815	Toilet Seat	17	11
510	Refrigerator Repair	11	6	816	Deck Faucet	15	10
511	Range Repair	10	10		PARTS & SUPPLIES	148	140
512	Roof Repair	23	22	901	Refrigerator #1	11	10
513	Air Conditioner Repair	9	6	902	Refrigerator #2	11	10
514	Floor Maint. #1	10	10	903	Air Conditioner #1	6	5
515	Floor Maint. #2	10	10	904	Air Conditioner #2	6	5
516	Floor Maint. #3	10	10	905	Floor Runner	8	8
518	Linen/Laundry Service	5	6	906	Dishwasher	7	5
	CONTRACTOR SERVICES	358	328	907	Range #1	7	5
601	Management Fees	57	55	908	Range #2	6	5
602	Accountant Fees	33	28	909	Carpet	10	10
603	Attorney Fees	23	21	910	Dresser	12	5
604	Newspaper Ads	19	19	911	Mattress & Box Spring	11	7
605	Agency Fees	5	5		REPLACEMENT COSTS	95	75
606	Lease Forms	7	7				
607	Bill Envelopes	10	10				
608	Ledger Paper	5	6				
	ADMINISTRATIVE COSTS	159	151		All Items	1448	1377

**II. Expenditure Weights, Price Relatives, Percent Changes and Standard Errors, All Apartments, 1997**

Spec #	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error	Spec #	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error
101	REAL ESTATE TAXES	0.2554	1.0240	2.40%	0.0593	601	Management Fees	0.6744	1.0457	4.57%	1.0816
201	Payroll, Bronx, All	0.1230	1.0350	3.50%	0.0000	602	Accountant Fees	0.1450	1.0352	3.52%	1.0984
202	Payroll, Other, Union, Supts.	0.1179	1.0235	2.35%	0.0000	603	Attorney Fees	0.1385	1.0228	2.28%	1.2506
203	Payroll, Other, Union, Other	0.2902	1.0225	2.25%	0.0000	604	Newspaper Ads	0.0043	1.0493	4.93%	1.8116
204	Payroll, Other, Non-Union, All	0.2675	1.0293	2.93%	1.0788	605	Agency Fees	0.0057	1.0030	0.30%	1.2165
205	Social Security Insurance	0.0475	1.0226	2.26%	0.0000	606	Lease Forms	0.0106	1.0151	1.51%	1.4853
206	Unemployment Insurance	0.0095	0.9760	-2.40%	0.0000	607	Bill Envelopes	0.0114	0.9603	-3.97%	4.0943
207	Private Health & Welfare	0.1444	1.0026	0.26%	0.0000	608	Ledger Paper	0.0101	0.9924	-0.76%	0.7702
	LABOR COSTS	0.1665	1.0226	2.26%	0.2886		ADMINISTRATIVE COSTS	0.0823	1.0389	3.89%	0.7682
301	Fuel Oil #2	0.2522	1.0319	3.19%	0.7103	701	INSURANCE COSTS	0.0657	1.0187	1.87%	1.6834
302	Fuel Oil #4	0.2158	1.0059	0.59%	0.8615	801	Light Bulbs	0.0396	1.0000	0.00%	0.0000
303	Fuel Oil #6	0.5320	0.9901	-0.99%	1.2119	802	Light Switch	0.0492	0.9827	-1.73%	1.9548
	FUEL	0.1080	1.0041	0.41%	0.7023	803	Wet Mop	0.0426	1.0130	1.30%	1.2434
401	Electricity #1, 2,500 KWH	0.0144	0.9716	-2.84%	0.0000	804	Floor Wax	0.0406	1.0000	0.00%	0.0000
402	Electricity #2, 15,000 KWH	0.1772	0.9670	-3.30%	0.0000	805	Paint	0.2147	1.0054	0.54%	0.3529
403	Electricity #3, 82,000 KWH	0.0000	0.9661	-3.39%	0.0000	806	Pushbroom	0.0402	1.0119	1.19%	1.1562
404	Gas #1, 12,000 therms	0.0058	0.8997	-10.03%	0.0000	807	Detergent	0.0346	1.0059	0.59%	0.6343
405	Gas #2, 65,000 therms	0.0621	0.9994	-0.06%	0.0000	808	Bucket	0.0422	1.0168	1.68%	0.9733
406	Gas #3, 214,000 therms	0.1562	1.0053	0.53%	0.0000	809	Washers	0.1030	1.0172	1.72%	1.6046
407	Steam #1, 1.2m lbs	0.0170	0.9906	-0.94%	0.0000	811	Pine Disinfectant	0.0502	1.0141	1.41%	1.5636
408	Steam #2, 2.6m lbs	0.0064	0.9779	-2.21%	0.0000	812	Window/Glass Cleaner	0.0536	1.0000	0.00%	0.0000
409	Telephone	0.0124	0.9983	-0.17%	0.0000	813	Switch Plate	0.0424	1.0190	1.90%	1.9022
410	Water & Sewer	0.5485	1.0650	6.50%	0.0000	814	Duplex Receptacle	0.0364	0.9902	-0.98%	1.0334
	UTILITIES	0.1434	1.0293	2.93%	0.0000	815	Toilet Seat	0.0999	1.0324	3.24%	1.2270
501	Repainting	0.4117	1.0210	2.10%	0.6038	816	Deck Faucet	0.1108	1.0546	5.46%	2.5088
502	Plumbing, Faucet	0.1386	1.0347	3.47%	0.9597		PARTS AND SUPPLIES	0.0227	1.0145	1.45%	0.3947
503	Plumbing, Stoppage	0.1255	1.0181	1.81%	0.8361	901	Refrigerator #1	0.0900	1.0223	2.23%	1.0611
504	Elevator #1, 6 fl., 1 e.	0.0497	1.1249	12.49%	6.5624	902	Refrigerator #2	0.4781	1.0097	0.97%	0.5045
505	Elevator #2, 13 fl., 2 e.	0.0347	1.0932	9.32%	4.8506	903	Air Conditioner #1	0.0177	1.0000	0.00%	0.0000
506	Elevator #3, 19 fl., 3 e.	0.0197	1.0937	9.37%	4.9210	904	Air Conditioner #2	0.0221	1.0000	0.00%	0.0000
507	Burner Repair	0.0395	1.0046	0.46%	0.4618	905	Floor Runner	0.0857	1.0125	1.25%	1.1061
508	Boiler Repair, Tube	0.0453	1.0591	5.91%	4.8714	906	Dishwasher	0.0452	1.0093	0.93%	2.8806
509	Boiler Repair, Weld	0.0357	1.0286	2.86%	2.1094	907	Range #1	0.0428	1.0181	1.81%	0.9203
510	Refrigerator Repair	0.0136	1.0440	4.40%	2.9583	908	Range #2	0.2184	1.0051	0.51%	1.2985
511	Range Repair	0.0144	1.0265	2.65%	1.7118		REPLACEMENT COSTS	0.0099	1.01001	1.00%	0.4186
512	Roof Repair	0.0559	1.0259	2.59%	1.4588						
513	Air Conditioner Repair	0.0098	1.0231	2.31%	0.0000						
514	Floor Maint. #1, Studio	0.0003	1.0356	3.56%	1.9837						
515	Floor Maint. #2, 1 Br.	0.0006	1.0318	3.18%	1.9745						
516	Floor Maint. #3, 2 Br.	0.0050	1.0322	3.22%	1.9940						
	CONTRACTOR SERVICES	0.1460	1.0338	3.38%	0.5461		ALL ITEMS	1.0000	1.02434	2.43%	0.1760

III. Price Relatives by Building Type, Apartments, 1997

Spec #	Item Description	Pre-1947	Post-1946	Gas Heated	OIL Heated	MASTER METERED BLDGS	Spec #	Item Description	Pre-1947	Post-1946	Gas Heated	OIL Heated	MASTER METERED BLDGS					
101	REAL ESTATE TAXES	1.0240	1.0240	1.0240	1.0240	1.0240	601	Management Fees	0.6268	0.8037	0.6548	0.7107	0.4729					
201	Payroll,Bronx,All	0.1750	0.0729	0.0021	0.1541	0.0000	602	Accountant Fees	0.1763	0.1172	0.1063	0.1602	0.3601					
202	Payroll,Other,Union,Supts.	0.1228	0.1182	0.1479	0.1093	0.0935	603	Attorney Fees	0.1764	0.0981	0.2375	0.1255	0.1429					
203	Payroll,Other,Union,Other	0.1783	0.4315	0.3470	0.2804	0.3776	604	Newspaper Ads	0.0054	0.0032	0.0075	0.0040	0.0044					
204	Payroll,Other,Non-Union,All	0.3716	0.1657	0.3386	0.2758	0.4003	605	Agency Fees	0.0069	0.0040	0.0094	0.0051	0.0056					
205	Social Security Insurance	0.0444	0.0533	0.0524	0.0476	0.0457	606	Lease Forms	0.0153	0.0051	0.0075	0.0113	0.0169					
206	Unemployment Insurance	0.0090	0.0097	0.0100	0.0095	0.0125	607	Bill Envelopes	0.0156	0.0051	0.0076	0.0116	0.0172					
207	Private Health & Welfare	0.1231	0.1694	0.1240	0.1462	0.0932	608	Ledger Paper	0.0143	0.0047	0.0070	0.0106	0.0158					
LABOR COSTS						1.0243	1.0208	1.0220	1.0229	1.0228	ADMINISTRATIVE COSTS			1.0371	1.0413	1.0376	1.0391	1.0357
301	Fuel Oil #2	0.3165	0.0926	0.0063	0.2594	0.3923	701	INSURANCE COSTS	1.0187	1.0187	1.0187	1.0187	1.0187					
302	Fuel Oil #4	0.2605	0.0875	0.1536	0.2135	0.1614	801	Light Bulbs	0.0388	0.0414	0.0406	0.0393	0.0758					
303	Fuel Oil #6	0.4300	0.8151	0.8329	0.5311	0.4548	802	Light Switch	0.0474	0.0505	0.0496	0.0480	0.0926					
FUEL						1.0070	0.9952	0.9928	1.0040	1.0085	803	Wet Mop	0.0408	0.0487	0.0347	0.0474	0.0555	
401	Electricity #1, 2,500 KWH	0.0207	0.0010	0.0227	0.0110	0.0000	804	Floor Wax	0.0384	0.0458	0.0326	0.0446	0.0523					
402	Electricity #2, 15,000 KWH	0.1389	0.2340	0.0751	0.2164	0.0000	805	Paint	0.2180	0.2108	0.2447	0.2076	0.1110					
403	Electricity #3, 82,000 KWH	0.0000	0.0000	0.0000	0.0000	0.5143	806	Pushbroom	0.0405	0.0411	0.0292	0.0400	0.0468					
404	Gas #1, 12,000 therms	0.0074	0.0010	0.0043	0.0059	0.0002	807	Detergent	0.0328	0.0392	0.0279	0.0381	0.0447					
405	Gas #2, 65,000 therms	0.0774	0.0325	0.1469	0.0350	0.0167	808	Bucket	0.0405	0.0483	0.0343	0.0470	0.0550					
406	Gas #3, 214,000 therms	0.1449	0.1805	0.4401	0.0394	0.0545	809	Washers	0.1099	0.0932	0.1132	0.1005	0.0559					
407	Steam #1, 1.2m lbs	0.0001	0.0490	0.0012	0.0001	0.0000	811	Pine Disinfectant	0.0499	0.0533	0.0522	0.0506	0.0977					
408	Steam #2, 2.6m lbs	0.0001	0.0183	0.0004	0.0001	0.0000	812	Window/Glass Cleaner	0.0525	0.0560	0.0548	0.0531	0.1025					
409	Telephone	0.0137	0.0097	0.0077	0.0148	0.0158	813	Switch Plate	0.0408	0.0487	0.0347	0.0473	0.0555					
410	Water & Sewer	0.6298	0.4963	0.3194	0.7127	0.4055	814	Duplex Receptacle	0.0341	0.0407	0.0290	0.0396	0.0464					
UTILITIES						1.0329	1.0222	1.0180	1.0353	1.0069	815	Toilet Seat	0.1081	0.0917	0.1114	0.0990	0.0550	
501	Repainting	0.4010	0.4732	0.5511	0.3880	0.3665	816	Deck Faucet	0.1225	0.1040	0.1262	0.1121	0.0623					
502	Plumbing, Faucet	0.1655	0.0829	0.1380	0.1406	0.1570	PARTS AND SUPPLIES			1.0149	1.0135	1.0150	1.0141	1.0092				
503	Plumbing, Stoppage	0.1470	0.0749	0.1249	0.1272	0.1420	901	Refrigerator #1	0.0888	0.0996	0.0749	0.0999	0.0811					
504	Elevator #1, 6 fl., 1 e.	0.0697	0.0184	0.0227	0.0626	0.0009	902	Refrigerator #2	0.4761	0.4981	0.4010	0.4997	0.4058					
505	Elevator #2, 13 fl., 2 e.	0.0192	0.0895	0.0054	0.0479	0.1046	903	Air Conditioner #1	0.0093	0.0372	0.0239	0.0156	0.0111					
506	Elevator #3, 19 fl., 3 e.	0.0073	0.0604	0.0442	0.0175	0.0368	904	Air Conditioner #2	0.0117	0.0463	0.0297	0.0195	0.0139					
507	Burner Repair	0.0401	0.0385	0.0200	0.0465	0.0353	905	Floor Runner	0.0821	0.0978	0.0460	0.0981	0.2340					
508	Boiler Repair,Tube	0.0485	0.0466	0.0241	0.0561	0.0427	906	Dishwasher	0.0392	0.0603	0.1437	0.0220	0.0134					
509	Boiler Repair,Weld	0.0372	0.0356	0.0185	0.0429	0.0326	907	Range #1	0.0496	0.0296	0.0476	0.0443	0.0436					
510	Refrigerator Repair	0.0138	0.0152	0.0135	0.0143	0.0077	908	Range #2	0.2532	0.1412	0.2427	0.2111	0.2075					
511	Range Repair	0.0144	0.0158	0.0141	0.0150	0.0080	REPLACEMENT COSTS			1.0100	1.0100	1.0094	1.0102	1.0105				
512	Roof Repair	0.0620	0.0447	0.0402	0.0631	0.0461	ALL ITEMS						1.0245	1.0231	1.0229	1.0241	1.0207	
513	Air Conditioner Repair	0.0028	0.0301	0.0042	0.0069	0.0353												
514	Floor Maint. #1, Studio	0.0002	0.0005	0.0004	0.0004	0.0006												
515	Floor Maint. #2, 1 Br.	0.0005	0.0008	0.0007	0.0006	0.0093												
516	Floor Maint. #3, 2 Br.	0.0041	0.0083	0.0071	0.0054	0.0088												
CONTRACTOR SERVICES						1.0331	1.0357	1.0292	1.0350	1.0340								

IV. Percentage Change in Real Estate Tax Sample by Borough and Source of Change, Apartments and Hotels, 1997

	% 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	-0.02%	0.55%	-0.04%	2.22%	0.01%	2.72%
Bronx	-11.90%	8.40%	-0.37%	4.25%	-0.08%	0.30%
Brooklyn	-0.45%	0.54%	-0.13%	2.63%	0.01%	2.60%
Queens	0.07%	-0.18%	-0.05%	2.42%	0.00%	2.25%
Staten Island	-2.10%	0.30%	-0.01%	2.61%	-0.04%	0.76%
<b>Total</b>	<b>-0.71%</b>	<b>0.83%</b>	<b>-0.07%</b>	<b>2.35%</b>	<b>0.00%</b>	<b>2.40%</b>
<b>HOTELS</b>						
Hotels	0.93%	-0.81%	0.00%	-0.48%	0.01%	-0.35%
Rooming Houses	1.63%	0.02%	0.00%	1.64%	0.01%	3.30%
SROs	3.70%	-2.29%	-0.05%	1.07%	0.01%	2.43%
<b>Total</b>	<b>2.67%</b>	<b>-1.62%</b>	<b>-0.03%</b>	<b>0.48%</b>	<b>0.01%</b>	<b>1.51%</b>

Note: Totals may not add due to rounding.

V. Tax Change by Borough and Community Board, Apartments, 1997

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	All	12,998	2.7	Brooklyn	9	273	5.6	Queens	All	6,223	2.2
	1	33	2.9		10	174	3.7		1	1,790	4.5
	2	1,217	3.3		11	288	2.7		2	821	3.4
	3	1,482	3.4		12	382	4.4		3	401	2.7
	4	1,081	1.9	All	11,691	2.6	4		358	1.1	
	5	338	-0.7	1	1,417	5.5	5		1,134	2.5	
	6	975	2.5	2	689	2.8	6		343	1.6	
	7	2,284	4.0	3	586	6.3	7		457	1.4	
	8	2,361	3.3	4	1,199	-1.2	8		219	3.5	
	9	705	4.1	5	256	8.7	9		192	1.1	
	10	657	3.4	6	958	3.8	10		82	2.4	
	11	497	0.4	7	836	3.8	11		130	1.8	
	12	1,365	0.4	8	812	6.6	12		151	0.7	
	NA	3	NA	9	517	-0.7	13		48	1.8	
Bronx	All	4,423	0.3	10	834	2.9	14	83	3.5		
	1	231	-9.9	11	733	0.9	NA	14	NA		
	2	145	-14.9	12	606	2.5	Staten Island	All	174	0.8	
	3	180	5.0	13	189	3.6		1	111	0.3	
	4	595	-4.5	14	846	2.2		2	41	1.9	
	5	556	-0.6	15	387	3.2		3	22	1.4	
	6	358	2.9	16	191	7.4	Citywide	All	35,509	2.4	
	7	898	1.6	17	562	4.1					
	8	343	0.3	18	69	-4.1					
				NA	4	NA					



VI. Expenditure Weights, Price Relatives, Percent Changes and Standard Errors, All Hotels, 1997

Spec #	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error	Spec #	Item Description	Expenditure Weights	Price Relative	% Change	Standard Error
101	REAL ESTATE TAXES	0.2221	1.0151	1.51%	2.9506	601	Management Fees	0.6076	1.0457	4.57%	1.0816
205	Social Security Insurance	0.0592	1.0305	3.05%	0.0000	602	Accountant Fees	0.0840	1.0352	3.52%	1.0984
206	Unemployment Insurance	0.0212	0.9760	-2.40%	0.0000	603	Attorney Fees	0.1442	1.0228	2.28%	1.2506
208	Hotel Private Health/Welfare	0.0366	1.0273	2.73%	0.0000	604	Newspaper Ads	0.1002	1.0493	4.93%	1.8116
209	Hotel Union Labor	0.3332	1.0313	3.13%	0.0000	605	Agency Fees	0.0250	1.0030	0.30%	1.2165
210	SRO Union Labor	0.0131	1.0285	2.85%	0.0000	606	Lease Forms	0.0120	1.0151	1.51%	1.4853
211	Apartment Value	0.1132	1.0577	5.77%	0.0000	607	Bill Envelopes	0.0154	0.9603	-3.97%	4.0943
212	Non-Union Superintendent	0.2995	1.0315	3.15%	1.5841	608	Ledger Paper	0.0116	0.9924	-0.76%	0.7702
213	Non-Union Maid	0.0000	0.0000	NA	0.0000		ADMINISTRATIVE COSTS	0.0923	1.0385	3.85%	0.7149
214	Non-Union Desk Clerk	0.0000	0.0000	NA	0.0000						
215	Non-Union Maintenance Worker	0.0000	0.0000	NA	0.0000	701	INSURANCE COSTS	0.0369	1.0187	1.87%	1.6834
216	Non-Union Janitor/Porter	0.1241	1.0252	2.52%	1.0067						
	LABOR COSTS	0.1814	1.0322	3.22%	0.4905	801	Light Bulbs	0.0164	1.0000	0.00%	0.0000
301	Fuel Oil #2	0.6824	1.0319	3.19%	0.4333	802	Light Switch	0.0186	0.9827	-1.73%	1.9548
302	Fuel Oil #4	0.0151	1.0059	0.59%	1.1866	803	Wet Mop	0.0504	1.0130	1.30%	1.2434
303	Fuel Oil #6	0.3024	0.9901	-0.99%	1.2119	804	Floor Wax	0.0507	1.0000	0.00%	0.0000
	FUEL	0.1101	1.0189	1.89%	0.4713	805	Paint	0.1181	1.0054	0.54%	0.3529
401	Electricity #1, 2,500 KWH	0.0815	0.9716	-2.84%	0.0000	806	Pushbroom	0.0458	1.0119	1.19%	1.1562
402	Electricity #2, 15,000 KWH	0.0853	0.9670	-3.30%	0.0000	807	Detergent	0.0463	1.0059	0.59%	0.6343
403	Electricity #3, 82,000 KWH	0.2649	0.9661	-3.39%	0.0000	808	Bucket	0.0515	1.0168	1.68%	0.9733
404	Gas #1, 12,000 therms	0.0516	0.8997	-10.03%	0.0000	809	Washers	0.0515	1.0172	1.72%	1.6046
405	Gas #2, 65,000 therms	0.0386	0.9994	-0.06%	0.0000	810	Linens	0.3109	1.0044	0.44%	0.7905
406	Gas #3, 214,000 therms	0.1575	1.0053	0.53%	0.0000	811	Pine Disinfectant	0.0197	1.0141	1.41%	1.5636
407	Steam #1, 1.2m lbs	0.0002	0.9906	-0.94%	0.0000	812	Window/Glass Cleaner	0.0207	1.0000	0.00%	0.0000
409	Telephone	0.1824	0.9983	-0.17%	0.0000	813	Switch Plate	0.0503	1.0190	1.90%	1.9022
410	Water & Sewer	0.1379	1.0650	6.50%	0.0000	814	Duplex Receptacle	0.0440	0.9902	-0.98%	1.0334
	UTILITIES	0.1719	0.9902	-0.98%	0.0000	815	Toilet Seat	0.0499	1.0324	3.24%	1.2270
501	Repainting	0.2057	1.0210	2.10%	0.6038	816	Deck Faucet	0.0554	1.0546	5.46%	2.5088
502	Plumbing, Faucet	0.0786	1.0347	3.47%	0.9597		PARTS AND SUPPLIES	0.0608	1.0104	1.04%	0.3400
503	Plumbing, Stoppage	0.0754	1.0181	1.81%	0.8361	901	Refrigerator #1	0.0195	1.0223	2.23%	1.0611
504	Elevator #1, 6 fl., 1 e.	0.0305	1.1249	12.49%	6.5624	902	Refrigerator #2	0.1028	1.0097	0.97%	0.5045
505	Elevator #2, 13 fl., 2 e.	0.0294	1.0932	9.32%	4.8506	903	Air Conditioner #1	0.0638	1.0000	0.00%	0.0000
506	Elevator #3, 19 fl., 3 e.	0.0273	1.0937	9.37%	4.9210	904	Air Conditioner #2	0.0756	1.0000	0.00%	0.0000
507	Burner Repair	0.0259	1.0046	0.46%	0.4618	907	Range #1	0.0082	1.0181	1.81%	0.9203
508	Boiler Repair, Tube	0.0268	1.0591	5.91%	4.8714	908	Range #2	0.0427	1.0051	0.51%	1.2985
509	Boiler Repair, Weld	0.0249	1.0286	2.86%	2.9583	909	Carpet	0.3453	0.9969	-0.31%	0.3156
511	Range Repair	0.1513	1.0265	2.65%	1.7118	910	Dresser	0.1764	1.0187	1.87%	1.1538
512	Roof Repair	0.0226	1.0259	2.59%	1.4588	911	Mattress & Box Spring	0.1658	1.0617	6.17%	1.6034
513	Air Conditioner Repair	0.0455	1.0231	2.31%	0.0000		REPLACEMENT COSTS	0.0254	1.0143	1.43%	0.3608
514	Floor Maint. #1, Studio	0.0009	1.0356	3.56%	1.9837						
515	Floor Maint. #2, 1 Br.	0.0019	1.0318	3.18%	1.9745						
516	Floor Maint. #3, 2 Br.	0.0172	1.0322	3.22%	1.9940						
518	Linen/Laundry Service	0.2361	1.0554	5.54%	5.2226						
	CONTRACTOR SERVICES	0.0992	1.0393	3.93%	1.3087		ALL ITEMS	1.0000	1.0187	1.87%	0.6824

VII. Price Relative by Hotel Type, 1997

Spec #	Item Description	Hotel	RH	SRO	Spec #	Item Description	Hotel	RH	SRO
101	REAL ESTATE TAXES	0.9965	1.0330	1.0243	601	Management Fees	0.6843	0.4892	0.5807
205	Social Security Insurance	0.0772	0.0582	0.0360	602	Accountant Fees	0.0572	0.1856	0.1125
206	Unemployment Insurance	0.0189	0.0158	0.0294	603	Attorney Fees	0.1148	0.2074	0.2122
208	Hotel Private Health/Welfare	0.0554	0.0000	0.0053	604	Newspaper Ads	0.1291	0.0517	0.0651
209	Hotel Union Labor	0.5216	0.0000	0.0000	605	Agency Fees	0.0215	0.0396	0.0261
210	SRO Union Labor	0.0000	0.0000	0.0660	606	Lease Forms	0.0105	0.0192	0.0127
211	Apartment Value	0.0334	0.4244	0.1778	607	Bill Envelopes	0.0127	0.0233	0.0154
212	Non-Union Superintendent	0.1039	0.4272	0.5515	608	Ledger Paper	0.0099	0.0181	0.0119
213	Non-Union Maid	0.0000	0.0000	0.0000		ADMINISTRATIVE COSTS	1.0401	1.0340	1.0365
214	Non-Union Desk Clerk	0.0000	0.0000	0.0000					
215	Non-Union Maintenance Worker	0.0000	0.0000	0.0000	701	INSURANCE COSTS	1.0187	1.0187	1.0187
216	Non-Union Janitor/Porter	0.2191	0.1148	0.1670					
	LABOR COSTS	1.0295	1.0403	1.0329	801	Light Bulbs	0.0055	0.0389	0.0323
301	Fuel Oil #2	0.7526	1.0319	0.2978	802	Light Switch	0.0061	0.0433	0.0360
302	Fuel Oil #4	0.0000	0.0000	0.0857	803	Wet Mop	0.0665	0.0239	0.0246
303	Fuel Oil #6	0.2680	0.0000	0.6200	804	Floor Wax	0.0660	0.0238	0.0245
	FUEL	1.0206	1.0319	1.0035	805	Paint	0.0538	0.3131	0.1677
401	Electricity #1, 2,500 KWH	0.0035	0.4325	0.0674	806	Pushbroom	0.0604	0.0217	0.0224
402	Electricity #2, 15,000 KWH	0.0827	0.0000	0.1405	807	Detergent	0.0607	0.0218	0.0225
403	Electricity #3, 82,000 KWH	0.3286	0.0000	0.2023	808	Bucket	0.0683	0.0246	0.0253
404	Gas #1, 12,000 therms	0.0035	0.2865	0.0110	809	Washers	0.0147	0.0867	0.1407
405	Gas #2, 65,000 therms	0.0314	0.0000	0.0896	810	Linens	0.4374	0.0915	0.1004
406	Gas #3, 214,000 therms	0.1645	0.0000	0.2511	811	Pine Disinfectant	0.0067	0.0474	0.0393
407	Steam #1, 1.2m lbs	0.0000	0.0019	0.0000	812	Window/Glass Cleaner	0.0069	0.0492	0.0408
409	Telephone	0.2475	0.0279	0.0793	813	Switch Plate	0.0668	0.0240	0.0247
410	Water & Sewer	0.1319	0.2200	0.1542	814	Duplex Receptacle	0.0567	0.0204	0.0210
	UTILITIES	0.9936	0.9687	0.9954	815	Toilet Seat	0.0144	0.0852	0.1383
501	Repainting	0.2156	0.2442	0.1670	816	Deck Faucet	0.0164	0.0967	0.1569
502	Plumbing, Faucet	0.0326	0.1878	0.1554		PARTS AND SUPPLIES	1.0075	1.0125	1.0175
503	Plumbing, Stoppage	0.0308	0.1771	0.1501	901	Refrigerator #1	0.0086	0.0437	0.0395
504	Elevator #1, 6 fl., 1 e.	0.0479	0.0000	0.0162	902	Refrigerator #2	0.0451	0.2274	0.2060
505	Elevator #2, 13 fl., 2 e.	0.0448	0.0000	0.0152	903	Air Conditioner #1	0.0948	0.0116	0.0000
506	Elevator #3, 19 fl., 3 e.	0.0416	0.0000	0.0141	904	Air Conditioner #2	0.1124	0.0137	0.0000
507	Burner Repair	0.0087	0.0272	0.0814	907	Range #1	0.0013	0.0162	0.0255
508	Boiler Repair, Tube	0.0095	0.0297	0.0887	908	Range #2	0.0067	0.0842	0.1321
509	Boiler Repair, Weld	0.0085	0.0269	0.0802	909	Carpet	0.3288	0.3805	0.3677
511	Range Repair	0.1825	0.0600	0.1397	910	Dresser	0.2111	0.1184	0.1218
512	Roof Repair	0.0354	0.0018	0.0000	911	Mattress & Box Spring	0.2067	0.1159	0.1192
513	Air Conditioner Repair	0.0392	0.0780	0.0469		REPLACEMENT COSTS	1.0156	1.0116	1.0120
514	Floor Maint. #1, Studio	0.0003	0.0021	0.0021					
515	Floor Maint. #2, 1 Br.	0.0007	0.0042	0.0042					
516	Floor Maint. #3, 2 Br.	0.0065	0.0389	0.0385					
518	Linen/Laundry Service	0.3396	0.1519	0.0311					
	CONTRACTOR SERVICES	1.0442	1.0298	1.0309		ALL ITEMS	1.0138	1.0173	1.0197

VIII. Expenditure Weights and Price Relatives, Lofts, 1997

Spec #	Item Description	Price Weights	Relative	Spec #	Item Description	Price Weights	Relative
101	TAXES	0.2449	1.0240		ADMINISTRATIVE COSTS, LEGAL	0.1114	1.0228
201	Payroll, Bronx, All	0.0000	1.0350	601	Management Fees	0.7912	1.0457
202	Payroll, Other, Union, Supts.	0.2988	1.0235	602	Accountant Fees	0.1571	1.0352
203	Payroll, Other, Union, Other	0.0000	1.0225	604	Newspaper Ads	0.0053	1.0493
204	Payroll, Other, Non-Union, All	0.5163	1.0293	605	Agency Fees	0.0070	1.0030
205	Social Security Insurance	0.0476	1.0226	606	Lease Forms	0.0117	1.0151
206	Unemployment Insurance	0.0107	0.9760	607	Bill Envelopes	0.0148	0.9603
207	Private Health & Welfare	0.1266	1.0026	608	Ledger Paper	0.0129	0.9924
	LABOR COSTS	0.1102	1.0233		ADMINISTRATIVE COSTS, OTHER	0.1001	1.0414
301	Fuel Oil #2	0.3272	1.0319	701	INSURANCE COSTS	0.1615	1.0187
302	Fuel Oil #4	0.5579	1.0059	801	Light Bulbs	0.0396	1.0000
303	Fuel Oil #6	0.1149	0.9901	802	Light Switch	0.0492	0.9827
	FUEL	0.0687	1.0126	803	Wet Mop	0.0426	1.0130
401	Electricity #1, 2,500 KWH	0.0143	0.9716	804	Floor Wax	0.0407	1.0000
402	Electricity #2, 15,000 KWH	0.1783	0.9670	805	Paint	0.2146	1.0054
403	Electricity #3, 82,000 KWH	0.0000	0.9661	806	Pushbroom	0.0402	1.0119
404	Gas #1, 12,000 therms	0.0059	0.8997	807	Detergent	0.0346	1.0059
405	Gas #2, 65,000 therms	0.0621	0.9994	808	Bucket	0.0422	1.0168
406	Gas #3, 214,000 therms	0.1560	1.0053	809	Washers	0.1030	1.0172
407	Steam #1, 1.2m lbs	0.0169	0.9906	811	Pine Disinfectant	0.0502	1.0141
408	Steam #2, 2.6m lbs	0.0064	0.9779	812	Window/Glass Cleaner	0.0536	1.0000
409	Telephone	0.0123	0.9983	813	Switch Plate	0.0424	1.0190
410	Water & Sewer	0.5477	1.0650	814	Duplex Receptacle	0.0365	0.9902
	UTILITIES	0.0801	1.0292	815	Toilet Seat	0.0998	1.0324
501	Repainting	0.4116	1.0210	816	Deck Faucet	0.1108	1.0546
502	Plumbing, Faucet	0.1386	1.0347		PARTS AND SUPPLIES	0.0240	1.0145
503	Plumbing, Stoppage	0.1255	1.0181	901	Refrigerator #1	0.0901	1.0223
504	Elevator #1, 6 fl., 1 e.	0.0497	1.1249	902	Refrigerator #2	0.4780	1.0097
505	Elevator #2, 13 fl., 2 e.	0.0348	1.0932	903	Air Conditioner #1	0.0177	1.0000
506	Elevator #3, 19 fl., 3 e.	0.0197	1.0937	904	Air Conditioner #2	0.0220	1.0000
507	Burner Repair	0.0395	1.0046	905	Floor Runner	0.0857	1.0125
508	Boiler Repair, Tube	0.0453	1.0591	906	Dishwasher	0.0452	1.0093
509	Boiler Repair, Weld	0.0358	1.0286	907	Range #1	0.0428	1.0181
510	Refrigerator Repair	0.0136	1.0440	908	Range #2	0.2185	1.0051
511	Range Repair	0.0144	1.0265		REPLACEMENT COSTS	0.0198	1.0100
512	Roof Repair	0.0559	1.0259				
513	Air Conditioner Repair	0.0099	1.0231				
514	Floor Maint. #1, Studio	0.0003	1.0356				
515	Floor Maint. #2, 1 Br.	0.0006	1.0318				
516	Floor Maint. #3, 2 Br.	0.0050	1.0322				
	CONTRACTOR SERVICES	0.0794	1.0338		ALL ITEMS	1.0000	1.0247