RGB Explained:

What To Look For In The Income & Expense Report

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The Income & Expense report is one of the most important documents created by the New York City Rent Guidelines Board. It is compiled from Real Property Income & Expense (RPIE) filings, which are required for all buildings over 10 units with rent-regulated properties. Approximately 650,000 apartments in about 15,000 buildings are analyzed, with average costs and incomes determined from this data.

Property owners are required to file the RPIE by May 1 of each year with details of the previous year's income and expense data. Since the RGB begins meeting in March, they do not yet have the prior year's income and expense data filed on May 1, so they calculate the newest Income & Expense report using data from the year before. Therefore, the 2023 report is compiled using 2021 data.

Because of the two-year lag in data, the RGB consistently uses outdated information to determine rent adjustments, which can cause them to miss troubling trends in the current funding and maintenance of rent-stabilized properties.

Additionally, the inclusion of buildings with majority free-market units and very few rent-regulated units can distort the overall data. For example, the RGB issued a special memo in 2022 that determined that 100% stabilized apartment buildings built before 1974 had significantly lower net operating incomes (NOI) than average buildings. The NOI is not profit, but rather the leftover income after operating expenses, and before an owner pays debt service and other expenses.

It is important to understand the limitations of the Income & Expense report. Simultaneously, the RGB could utilize the treasure trove of data from the RPIE filings by requesting more specific information from the New York City Department of Finance to help them better understand the current trends in rent-regulated buildings.

What Is Net Operating Income?

The focal point of the RGB's Income & Expense report is a calculation called net operating income (NOI). This is the amount of income leftover after RGB-tracked operating expenses are calculated. **This number, unfortunately, is often misconstrued as a building's profit, despite the fact that the report clearly articulates it is not.**

The NOI calculation by the RGB does not account for major expenses that almost all buildings accrue, including the large expense of mortgage payments or debt service that is often required for large capital improvements to buildings. A responsible debt service ratio is typically 1.25, which means that no more than 80 cents of every dollar of NOI is spent on mortgage payments.

NOI calculation also does not account for reserve funds, which is the other main expense. Well-operated buildings should set aside between $150 and $200 per unit, per month, in reserve funds to cover emergency expenses that are likely to occur, especially in pre-war rent-stabilized buildings.

The average NOI number calculated by the Income & Expense report should be analyzed based on building type, percentage of rent-stabilized units, and geographic location. Subdividing buildings through these categories can provide the RGB with a more accurate picture of the health of rent-regulated buildings.

For example, the majority of rent-regulated buildings in the core of Manhattan have more free market units than regulated units and the NOI is calculated using all the units in the building, not just the rent-stabilized units. Typically, the NOI for the core of Manhattan is approximately double the NOI for 100% stabilized buildings in the outer boroughs. The RGB's rent adjustments are vital for the survival of the latter cohort, but historically, the RGB has justified lower rent adjustments that don't keep up with operating costs for these buildings by highlighting the financial strength of mostly free-market buildings in the core of Manhattan, which have the ability to increase rents in order to offset growing costs.

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Impact of ERAP Funding

In June of 2021, the New York State Legislature passed legislation that created the Emergency Rental Assistance Program (ERAP). Funded by the federal government, ERAP was slow to be implemented and payments were slow to be paid out, but in 2021 and 2022 roughly $3 billion went to property owners. A large portion of this went to rent-stabilized property owners.

Because of the lag in data, CHIP anticipates ERAP could create data distortion in the income filings in the 2023 and 2024 Income & Expense reports. Some payments received in 2021 likely covered arrears for 2020, potentially revealing spikes in income. We encourage the RGB to view any spikes in this context.

While helpful, ERAP did not fully address the lack of funding for rent-stabilized units. CHIP estimates that more than half of rent-stabilized tenants with large arrears did not apply for ERAP or were not approved for ERAP. Additionally, ERAP only paid 15 months of rent arrears, while some tenants have not been able to pay rent for the past three years.

We hope the RGB will recognize the significant financial pressure rent-stabilized buildings are currently experiencing due to massive rent arrears, even if the 2023 Income & Expense does not capture these losses fully due to the launch of ERAP in 2021.

Audit-Adjusted Costs

The RGB prints an "audit-adjusted operating cost" number in their Income & Expense report. It is important to note that this number is derived using decades old data based on an extremely small sample size to manipulate data on operating costs. The RGB uses a 1992 audit of a few dozen buildings that looked at the reported costs versus the actual costs and found an 8% difference. There is no scientific basis for continuing to assume that a 31 year-old audit is accurate.

Unfortunately, the RGB has historically given the audit-adjusted number credibility and used it as justification for issuing rent adjustments that do not keep up with operating costs.

A True Income-To-Cost Assessment

In the 2022 Income & Expense Report, the average monthly rent in rent-stabilized buildings was $1,288 excluding the core of Manhattan, where the majority of apartments in rent-stabilized buildings are free-market. The average operating cost for buildings outside of the core of Manhattan was $900, which leaves $388. About $300 of the rent goes to mortgage payments, leaving the owner with $88 for reserves and capital expenses, which is approximately half of what an owner should set aside. With the massive spike in interest rates over the past year, debt service payments are estimated to jump from $300 to $445 on a refinancing, forcing the average building in this cohort to operate at a loss of $57 dollars. In short, any rent-stabilized building that must refinance this year is in dire trouble.

In calculating NOI, the RGB factors in other income sources, primarily commercial properties, laundry, cell tower deals, or other services the building may have. Buildings with additional income can help keep up with operating costs. But during the pandemic, many storefronts shut down or could not pay full rent, which put an additional strain on rent-stabilized building owners.

Without an additional income source, most rent-stabilized buildings in the outer boroughs are currently insolvent. Rent adjustments are necessary to raise the base income from rent to a level that keeps up with operating expenses. Without an increase in rents, the building is effectively defunded.

The RGB has a responsibility to ensure rent-stabilized buildings have the income necessary to maintain properties. They must acknowledge the shortcomings of the Income & Expense report and review the data with a focus on the struggles of outer borough properties in order to make sure that housing stock is preserved. If they instead continue to focus on averages inflated by free-market apartments in the core of Manhattan, they will continue defunding vital affordable housing for working-class New Yorkers.

New York City is in a housing crisis.

Hundreds of owners and property managers of rent-stabilized apartments can't keep up with skyrocketing costs. According to NYC's own numbers, the 2022 rent-adjustments don't come close to covering the increase in fixed-costs, and it has been that way for years.

New York City's Rent Guidelines Board needs to listen to their report and housing experts, and implement a more reasonable rent adjustment in 2023. Our city depends on it.

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