The Official 2022

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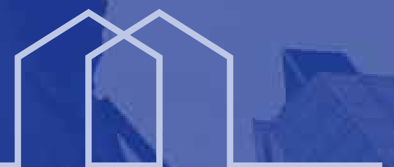

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The Government's Own Numbers Continue to Show How the 2022 Rent Guidelines Board's Rent Adjustments Are Well Below Skyrocketing Costs

In this report, CHIP outlines the current financial situation facing rent-stabilized property owners. We also project the economic situation for these buildings for the next year, recalculating income based on the RGB's modest rent adjustments, and updating expense data based on the latest inflation numbers.

Summary

The New York City Rent Guidelines Board (RGB) meets annually to review data from previous years and set rent adjustments. This process typically begins in February or March and ends in June with a final vote.

The RGB factors in many things when considering a rent adjustment, but the primary data they review is income and expense data that is collected from Real Property Income and Expense (RPIE) reports filed from two years previous. As an example, the 2022 Income and Expense Report was compiled using 2020 RPIE reports, which were required to be filed in the first quarter of 2021.

Making sense of that data has been exceptionally difficult in the past few years due to the massive changes in the rent laws in 2019 and the COVID-19 emergency, which began in 2020.

Additionally, the RGB asked the New York City Department of Finance to run separate income and expense analysis of buildings that contained more than 80% rent-stabilized properties. For the purpose of this report, we will refer to these buildings as "highly stabilized buildings". The supplemental data from the RGB showed a modest net operating income decline in 2020.

In order to properly inform the government and the public, CHIP has contextualized and supplemented the City's own data with income and expense data from 2021, using tax assessment challenges filed with the Department of Finance, which is filed under penalty of perjury. This data is segmented out to include buildings that are 100% stabilized.

Index

2021 INCOME & EXPENSE DATA *Page 4*

Net operating income went down, and average operating costs for apartments in heavily stabilized buildings are expected to increase $1,089 this year.

RISING COSTS *Page 5*

Operating costs in 2021 rose by an estimated 15.2%, according to publicly available TC201 filings.

ENERGY COST OUTPACE RGB PREDICTIONS *Page 6*

In the 2021 PIOC, the RGB estimated that fuel prices would increase by 0.1%, but they actually rose by 19.6%.

FINANCE & DEBT SERVICE *Page 7*

More than 90 cents of every dollar in revenue would go to pay the mortgage on the average highly stabilized building.

COMPARABLE RENT ADJUSTMENT *Page 8*

If the RGB re-calculated the necessary increases using the current 7.7% inflation figure, then the increases necessary to keep up with rising costs would have been 8.7% on a one-year lease and 17.3% on a two-year lease

FUTURE OUTLOOK *Page 10*

The RGB defunded rent-stabilized housing when they approved a rent adjustment of only 3.25% on a one-year lease and 5% on two-year lease. Buildings with deregulated units can offset some of this loss by raising rents on free market renters.

2021 Income & Expense Data

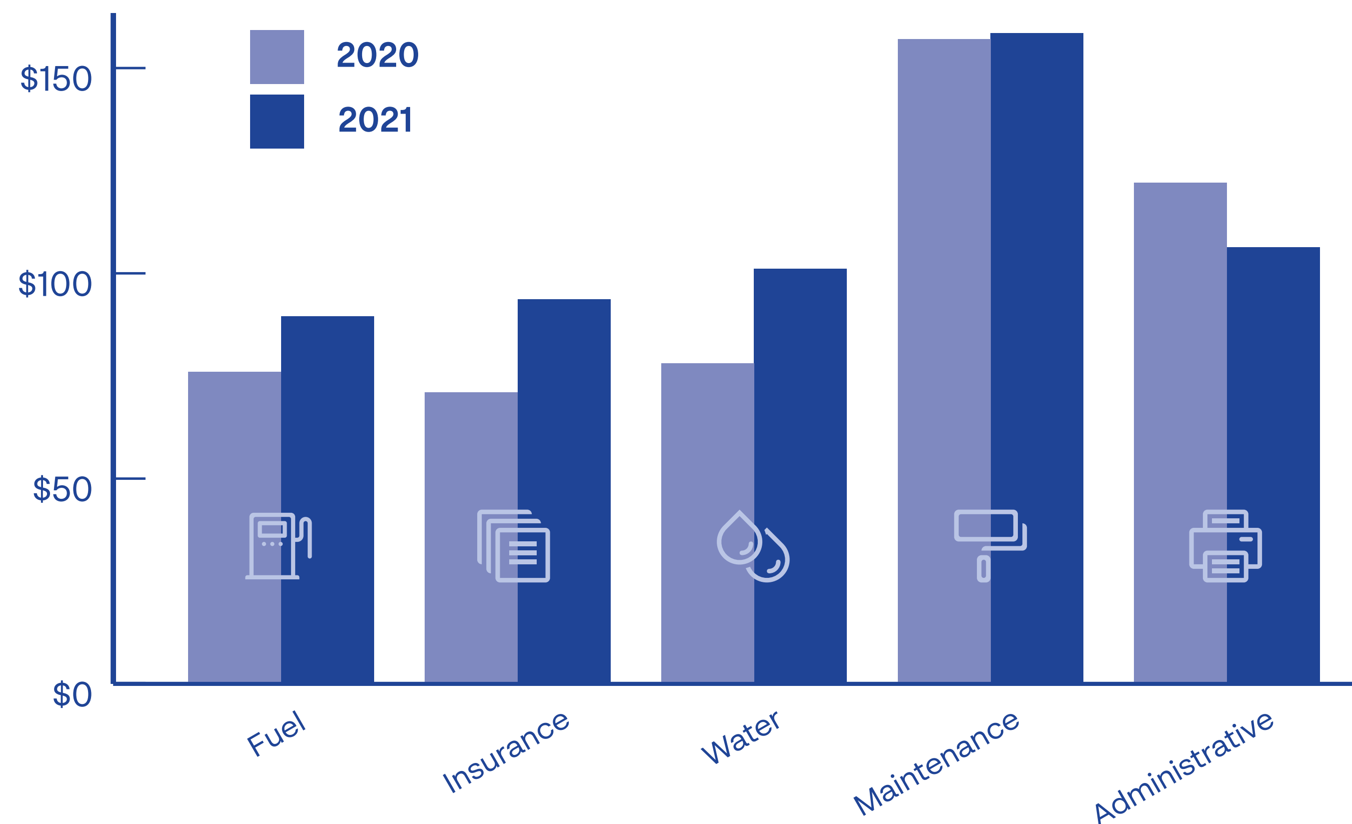
Property owners who challenge their tax assessments are required to file detailed income & expense data. Each year, the New York City Department of Finance receives thousands of challenges to tax returns, creating a large sample size that we can compare to the RGB's data, which is pulled from Real Property Income & Expense (RPIE) filings that look at 2020 data. From this tax return sample, we can estimate the change in income and expense from 2020 to 2021, providing us with more detailed information on actual costs.

CHIP looked at the 2021 tax filings of 1,346 fully rent-stabilized buildings in New York City. The TC201 forms closely mirror the RPIE filings that the RGB uses to calculate their Income & Expense reports. The one major difference is that the 2021 tax filings do not include the taxes for last year, since the object of the filing is to challenge the tax assessment.

Table 1 of the 2022 Income & Expense breaks down expenses for pre-1947 buildings excluding the core of Manhattan. This subsect most aligns with the tax form filings we looked at, which were non-elevator buildings mostly outside the core of Manhattan. Comparing the data, we were able to strip out tax payments and calculate the average operating costs for rent-stabilized buildings in 2020 to be $647.

Fuel costs increased more than $13 per apartment, per month from $76 to $89.49. Insurance costs rose from $71 to $93.60. Water and sewer costs saw a huge spike from $78 to $101.14. Maintenance costs stayed roughly the same, rising from $157 to $158.49. Administrative costs declined from $122 to $106.33.

Data compiled from 2021 tax filings show operating costs, excluding tax payments, were $763, an increase of $116 from 2020.



Rising Costs

When the RGB calculated future costs in the 2022 Price Index of Operating Costs (PIOC), they didn't factor skyrocketing inflation. The endnotes of the report state that the CPI for All Urban Consumers for the region, the metric the RGB uses, was up 4%. This methodology may have worked in previous years, but it doesn't accurately reflect the tumultuous times we currently face. Since the publication of the PIOC, the CPI for All Urban Consumers has nearly doubled to 7.8%.

When factoring in the updated inflation, projected costs grow from 4.7% to 9%. In real dollars, this would be a $1,118 increase in operating costs per apartment in a rent-stabilized building.

Additional data from RGB allows us to calculate the increase in operating costs for buildings with more than 80% of apartments that are rent-stabilized. Outside of the core of Manhattan, this cohort makes up 79% of rent-stabilized apartment buildings. The increase in operating costs for these buildings would be $939 per apartment annually.

The RGB reports calculated that rent adjustments of 4.5% on a one-year lease and 9% on a two-year lease was necessary to keep up with operating costs. Updated inflation data suggests that 8% increases for a one-year lease would be necessary for an owner to keep up with rising costs. Ultimately they approved a 3.25% increase for a one-year lease and a 5% increase for a two-year lease.

In real dollars, the one-year lease increase for buildings with more than 80% of apartments that are rent-stabilized would net an increase in revenue of $451. This would be a decline in net operating income (NOI) of $488 per apartment. According to the RGB, the average apartment in these buildings had a net operating income of $4,812 annually, which would drop to $4,324 next year.

Energy Costs Outpace RGB Predictions

In the 2022 Price Index of Operating Costs (PIOC), the RGB estimated that fuel costs would decline by 1.7% from April 2022 to March 2023. Recent prices and future projections by Con Ed suggest that this estimate is way off. In an interview with NY1, a spokesperson for Con Ed said that natural gas prices will likely increase by more than 20% in the coming months. Current prices on the Henry Hub Natural Gas Futures market show that prices are growing dramatically.

In the 2021 PIOC, the RGB estimated that fuel prices would increase by 0.1%, but they actually rose by 19.6%.

In this year's report the RGB admitted: "Energy prices have become increasingly volatile. Unpredictable geo-political events, recession, and changing weather patterns are some of the forces behind large changes in fuel costs that have in turn limited the accuracy of the PIOC projections in recent studies."

Fuel accounts for roughly 7% of a rent-stabilized building's overall costs. A massive underestimation of those costs in line with last year's incorrect projection, which seems likely at this point, would result in roughly $150 per unit in additional costs.

Financing and Debt Service

The RGB produces an annual Mortgage Survey Report, which details the current interest rates for buildings and the debt service coverage ratio. The report reflects the latest data from lending institutions for the previous year and the first few months of the current year. In the case of the 2022 report, the survey reflects interest rates and debt service coverage prior to the Federal Reserve's aggressive increase of interest rates, which started in May 2022.

The 2022 Mortgage Survey found the average debt service coverage ratio to be around 1.24. In real dollars, this means that $3,881 of annual NOI for highly stabilized buildings went to debt service, leaving $931 for capital costs that are not calculated in the annual RPIE reports. CHIP estimates that these costs are annually around $2,400 per apartment. Some of these costs can be deferred temporarily, but ultimately the quality of the buildings will deteriorate unless a property owner makes necessary capital improvements.

Since debt service is likely to remain constant or get worse for owners who need to refinance, we can calculate an estimated debt service ratio for highly-stabilized buildings using updated operating cost and income projections.

The new expected debt service ratio would be 1.11, which means that more than 90 cents of every dollar in revenue would go to pay the mortgage on the average highly stabilized building.

Rent-stabilized buildings with a larger portion of free market units will be able to raise rents to offset these costs. This is part of the reason for the skyrocketing increase in asking rents and recent bidding wars for apartments. Highly stabilized buildings do not have this ability. Their only option is to defer capital improvements in an effort to minimize losses.

Comparable Rent Adjustments

The RGB's rent adjustments for leases between October 1, 2022 and September 30, 2023 were 3.25% on one-year leases and 5% on two-year leases. These adjustments were well below the RGB's own calculations of necessary increases to keep up with rising costs, known as the commensurate adjustment. The RGB's commensurate adjustments were 4.5% on a one-year lease and 9% on a two-year lease, when inflation was at 4%. If the RGB re-calculated the necessary increases using the current 7.7% inflation figure, then the increases necessary to keep up with rising costs would have been 8.7% on a one-year lease and 17.3% on a two-year lease.

The inflation updated adjustments are still well below the recent Fair Market Rent (FMR) figures released by the Department of Housing and Urban Development (HUD), which is required by law to release new fair market rent appraisals annually. These new rent guidelines, which go into effect on October 1, are used to determine the value of federal Housing Choice Vouchers and many state and local programs are tied to these rents as well. Nationally, HUD FMR increased by more than 10%. In New York City, it increased by more than 20%, highlighting the added severity of the city's affordable housing crisis.

The HUD FMR for a one-bedroom apartment in the New York City metropolitan area is now $2,170. The 2021 Housing and Vacancy Survey found that the median monthly rent for all rent-stabilized apartments was $1,400.

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Since rents are not tracked by bedroom count in rent-stabilized apartments, it is impossible to calculate the median monthly rent for a one-bedroom rent-stabilized apartment, but it is likely less than $1,400. Additionally, 69% of all rent-stabilized apartments had rents below $1500.

In short, the vast majority of rent-stabilized housing in New York City have rents nearly $800 below what the federal government believes is necessary to operate housing. Rent-stabilization continues to be a massive subsidy provided by private property owners to tenants lucky enough to have obtained rent-stabilized homes. In buildings with deregulated units, that subsidy is offset by increasing market rate rents. This is one of the main reasons that median asking rents in Manhattan are now over $5,000.

Future Outlook

By all metrics available, the RGB defunded rent-stabilized housing when they approved a rent adjustment of only 3.25% on a one-year lease and 5% on two-year lease. Buildings with deregulated units can offset some of this loss by raising rents on free market renters. The vast majority of buildings in the outer boroughs and in upper Manhattan do not have that luxury. The low rent-adjustments do not come close to covering rising costs, eroding the thin margins on which they operate.

Using RGB's own data and applying updated inflation statistics, a highly stabilized pre-1974 building is expected to have a yearly income of $443 per unit, after mortgage payments are made, but before any capital expenditures like facade inspections, boiler inspections, or roof repairs. When factoring in the likely spike in energy costs, this yearly per unit income drops to an estimated $293, or $24 a month.

To put this in context, the Division of Housing and Community Renewal sets a reasonable cost schedule for repairs. Replacing a boiler is $172,600 according to their schedule, which was implemented before inflation started to rise.

The average 50-unit rent-stabilized apartment building would only net a yearly income of about $20,000. This means it would take nine years for the building to build up enough reserves to afford a boiler replacement. This is just one of the dozens of capital costs' building owners face each year. CHIP estimates that a properly run 50-unit rent-stabilized apartment building spends an average of $100,000 on capital costs annually.

The rising costs may be even worse than the RGB data presents. Expense data from 2021 tax assessment challenges showed that operating expenses, minus tax payments, were up 15.2% from 2020.

It is clear that pre-1974 buildings with more than 80% of apartments rent-stabilized are, on average, operating at or near a loss. These buildings make up 79% of housing outside of the core of Manhattan, and generally do not have the ability to charge higher rents on deregulated units in order to offset the revenue loss of rent-stabilized units. Without data-driven rent adjustments from the RGB, or massive policy changes from the State Legislature, these units will continue to be defunded until they can no longer operate safely.

Key Takeaways

The RGB defunded rent-stabilized housing when they approved a rent adjustment of only 3.25% on a one-year lease and 5% on two-year lease.

The vast majority of buildings in the outer boroughs and in upper Manhattan do not have the option to offset their losses by raising rents on free market renters.

A highly stabilized pre-1974 building is expected to have a yearly income of $443 per unit. When factoring mortgage payments and capital expenditures, and the likely spike in energy costs, this yearly per unit income drops to an estimated $293, or $24 a month.

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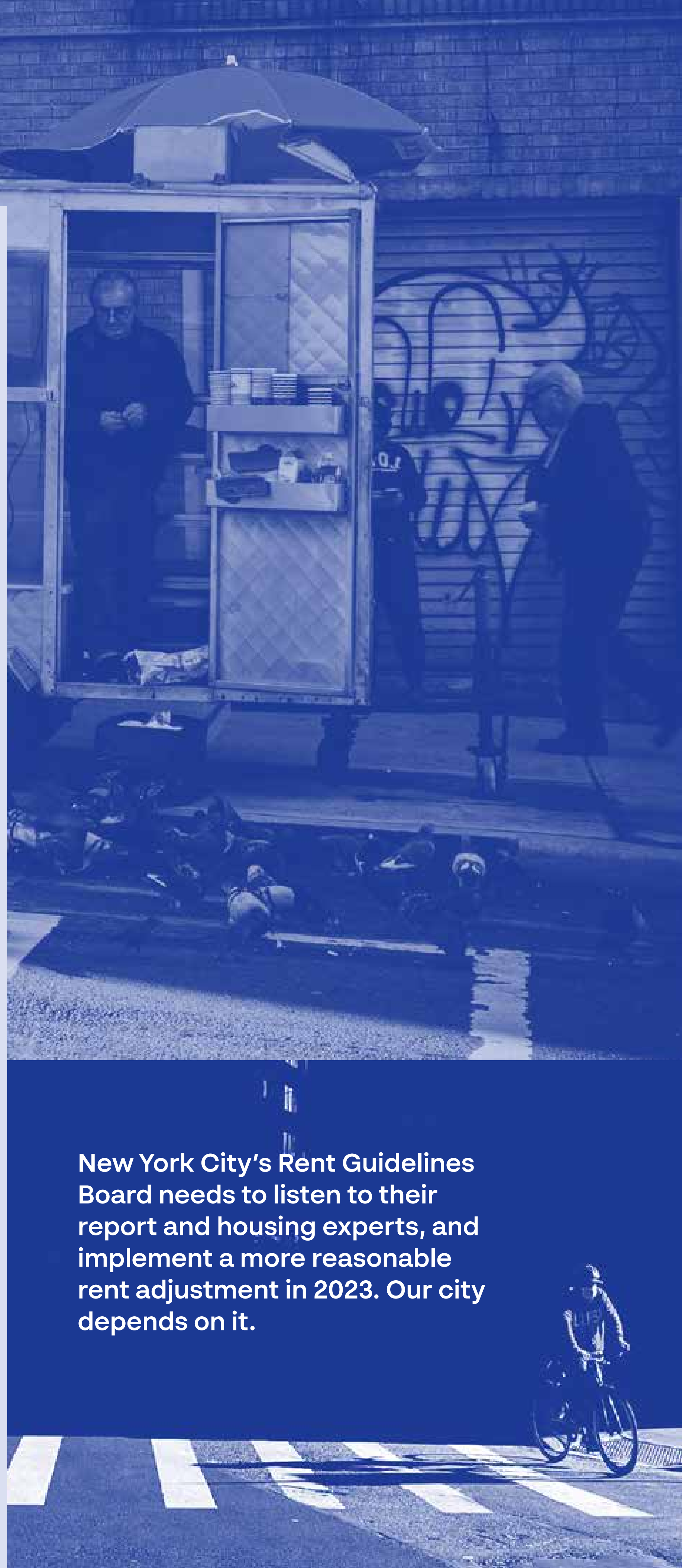
Without data-driven rent adjustments from the RGB, or massive policy changes from the State Legislature, these units will continue to be defunded until they can no longer operate safely.

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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