

New York City Rent Guidelines Board

Income and Expense Brief

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Is Net Operating Income Rising in Rental Housing?

In a report released last October ("State of the Rental Market, 1996"), the Rent Guidelines Board found a distinct improvement in the economics of the rental market. A sharp decline in building owners' vacancy and collection losses, a low rate of operating cost inflation, and modest rent increases improved the profitability of rental housing to a level not seen since 1989.

The conclusions in the "State of the Rental Market" report were based in large part on owners' 1995 Real Property Income and Expense (RPIE) filings. This Brief looks at more recent data - 1996 filings with the New York City Tax Commission.¹ The data clearly show that the profitability of rental housing continues to improve, a finding we expect the forthcoming 1997 Income and Expense Study to confirm.²

Rent increases were moderate - except in Manhattan

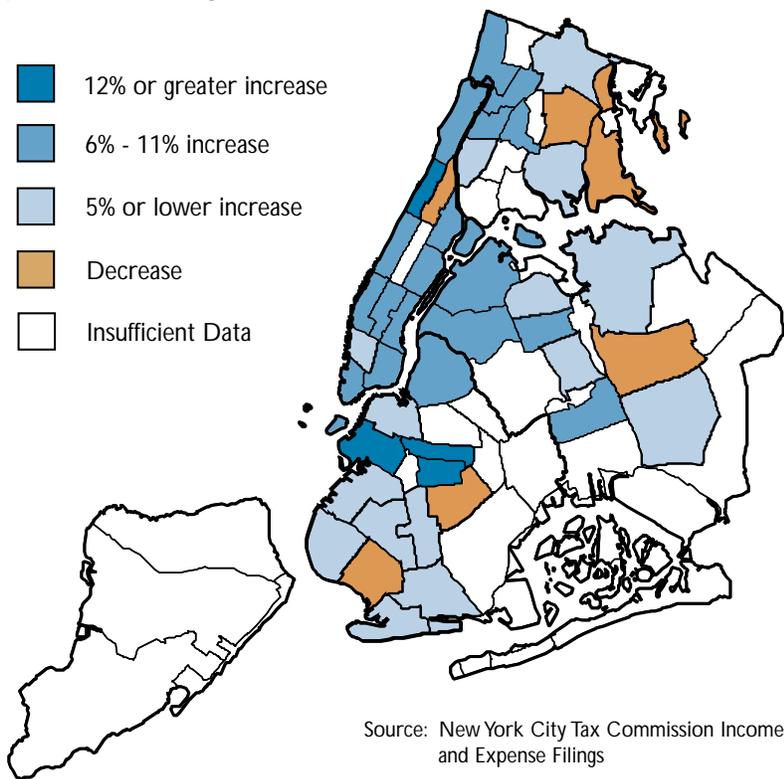
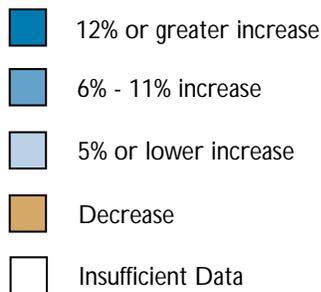
The amount of rent collected by landlords rose 3.8% in 1995. Gross income (which includes revenue from office and store leases, sales of services to tenants, etc.) rose 3.9%.

The long awaited recovery of the low-income rental market seems to have begun. In buildings with below average rent levels (i.e. below \$500 per apartment), rents rose 4.3% compared to a 3.7% increase in buildings with above average rent levels. Apparently, a marked improvement in the City's economy has finally had an impact on the low-rent sector. Some of the above-average increase in these low-rent buildings can also be attributed to the Rent Guidelines Board, which re-enacted a "low-rent supplement" in 1994.

Manhattan owners fared considerably better than outer borough landlords. In Manhattan rents rose 4.4%. The increase in each of the other boroughs was about 3%.

Rents rose faster than the city-wide average in all but two Manhattan neighborhoods (the Financial District and Central Harlem). Increases exceeded 5% in three neighborhoods - the East Village/Lower East Side, Midtown, and Morningside Heights.

Net Operating Income Continues to Rise - Up 7% on Average in 1995.



Source: New York City Tax Commission Income and Expense Filings

Owners continue to benefit from modest increases in operating costs

While income rose 3.9%, the cost of operating rental housing increased only 1.8%. Growth in costs ranged from 1% to 4% in nearly all expense categories. The two exceptions were fuel costs (which decreased) and insurance, which rose 4.5%.

Since real estate taxes and water/sewer fees now account for nearly a third of owners' costs, small increases in these items (1.7% and 0.8% respectively) were key to holding the line on expenses.

Operating costs rose faster in low income buildings (3.4%) than in buildings with above average rents (0.9%), thereby negating all of the benefit of larger rent increases in low income buildings.

Expenses rose slower in Manhattan (1.3%) than in the other boroughs. Manhattan owners were aided by lower real estate tax increases (1.4%) than in the outer boroughs (2.5%).

Net operating income rose for the third consecutive year

Larger increases in income than expenses can yield only one result

- higher net operating income (NOI). Overall, owners' NOI was up 7% in 1995.

In buildings with above average rents, NOI was up slightly more (7.2%) while the increase in low rent buildings was slightly less (6.2%).

Manhattan owners did particularly well. Since rents in Manhattan rose faster than the citywide average and expenses grew slower than average, NOI rose 8% in 1995. Fortunes in the other boroughs were less rosy, where increases in NOI ranged from 4 to 5%. □

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Note:

(1) The 1996 filings with the Tax Commission generally reflect 1995 calendar year expenses and income.

(2) Tax commission and RPIE data differs in a number of ways. Most significantly, this Brief examines ALL rental properties which filed tax protests on TCIE forms while the RGB's annual income and expense study looks at rent stabilized properties only. Thus, although we expect the forthcoming 1997 Income and Expense study to confirm the rise in NOI, the magnitude of the increase and the increases by neighborhoods may vary from this study.
