



# Rent Guidelines Board Submission Relative to Order 29



**Rent Stabilization Association**

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## Summary

This year, we ask the RGB to enact rent guidelines substantially higher than the Price Index, which severely underestimates true increases in operating costs. Increases of 2 and 3 % will not allow owners to keep up with operating cost increases, much less service increased mortgage costs and improve living conditions in their buildings. The RGB should focus on the following facts:

- ◆ Operating ratios remain high by historic standards in New York City and in comparison to the national average. The economic condition of stabilized housing has steadily deteriorated since stabilization began.
- ◆ Guideline increases alone have been inadequate to improve housing economics. Rather, an illusory improvement in housing economics has resulted from the ability of some owners to obtain capital improvement rent increases and improved rent collections.
- ◆ Higher rents translate into increased expenditures on building maintenance and services, based on the RGB staff comparison of regulated and unregulated buildings. Higher allowable guidelines would therefore help erase the maintenance deficiencies which have been demonstrated in the stabilized stock.
- ◆ Recently revised data from the Census Bureau shows that stabilized renters have incomes 20% higher than previously believed. This finding only accounts for non-reporting and still fails to account for the known under-reporting of income. At this point, owners' incomes and expenses have been more closely scrutinized than tenants', and we really don't know to what extent there is a housing affordability issue.
- ◆ The price index, as usual, measures price increases, not actual increases in owners' costs, and averages out many real price increases paid by property owners.

Because the RGB provides rent guidelines lower than the price index when the index is high, so should the RGB provide higher guidelines than the index when the index is low. We believe that the following moderate levels of rent increases will enable owners to maintain and perhaps improve their buildings, without placing undue burdens on tenants:

- ◆ 5% for a one-year lease, and 9% for a two year lease
- ◆ An additional \$20 per month for apartments renting for less than \$500
- ◆ Upon vacancy, a minimum rent of \$500 per month, the highest rent for a comparable apartment, or 25%, whichever is greater.

The RGB was given a mandate to preserve the health of the housing industry by enacting rent increases to cover operating costs and provide a profit. The historic failure of the RGB to provide adequate and reasonable rent guidelines has had a traumatic effect on the City's rental housing and the economies of the City and State. These factors have contributed to the current effort to phase out the rent laws. Inadequate and punitively low guidelines this year will only further justify this effort.



# Condition of the Housing Industry

While some data appears to indicate an improvement in the short term health of the stabilized housing stock, its overall condition remains bleak. Operating ratios are still high by historical standards and a majority of buildings are saddled with low average rents and have difficulty meeting maintenance and operating costs.

The apparent improvements are attributable, not to rent guidelines increases, but to rent increases for major capital improvements and improved rent collections. Those buildings which must rely on rent guideline increases alone are having trouble making ends meet.

Moreover, this year's low price index is not a true reflection of increased operating costs, and hides many real increases in costs through the use of averages. Also, rising mortgage costs are not reflected in the price index.

## Operating Ratios Are Still Too High

Operating ratios as determined by the income and expense statements filed by property owners with the City's Department of Finance have been used since 1989 to measure the health of the housing industry. As indicated in Figure 1, these DOF operating ratios only tell part of the story. They show deterioration in housing economics from 1989 through 1993 as the City and the real estate industry entered a period of economic recession. For the

last two years, the operating ratios have dropped as the economy has improved.

However, operating ratios for this limited time frame do not reflect the steady deterioration of housing economics since the inception of rent stabilization in 1969. Figure 1 also reflects rent to operating cost ratios drawn from RGB explanatory statements which have been traditionally used to gauge the health of the industry. The historical analysis shows that the DOF ratios began to be used when operating ratios had already increased over a period of nearly twenty years.

Therefore, to say that the housing industry has returned to the condition it was in in 1989, is not to say that is a healthy condition. In fact, according to the RGB staff report, 1989 was a particularly bad year for owners (Income and Expense Report, 1996, page 7). Thus, operating ratios must still be reduced significantly to reach the historical benchmark of 55%. And even at these levels operating ratios in New York would be significantly higher than average ratios measured across the country, placing investment in New York at a competitive disadvantage with investments elsewhere.

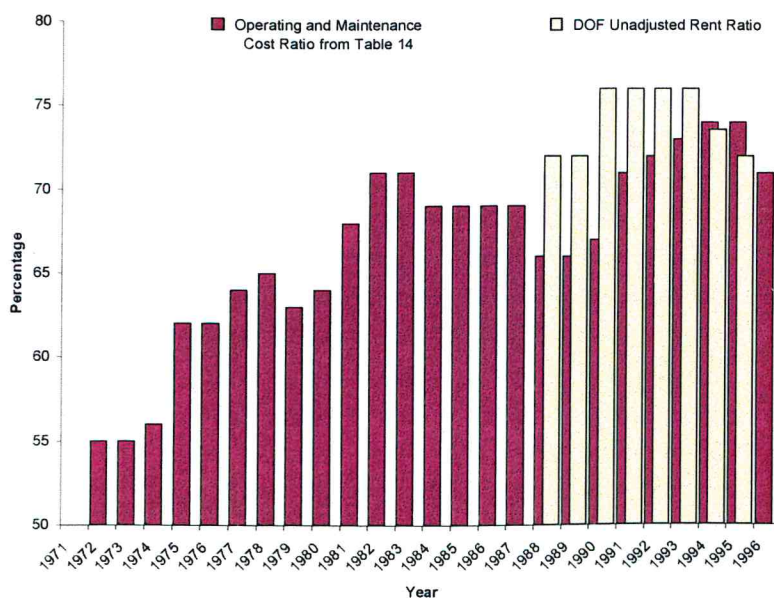
The measure of operating ratios as currently used also disguises underlying building operating ratios which are significantly higher than per unit operating ratios. Usually, the RGB staff takes aggregate rental income and aggregate costs to arrive at a per unit operating ratio. But property owners operate buildings, not units, so from an operational point of view, the critical factor is what is the operating ratio for the building, not the unit.

It turns out that we can derive operating ratios for buildings from the DOF data and these building operating ratios are significantly higher than the per unit operating ratios. As represented in Figure 2, when measured on a per apartment basis, the income to operating cost ratio comes to 64% but when measured on a per building basis, this ratio is significantly higher at 72%.

Figure 2 also shows that operating ratios on a building basis are skewed towards higher operating ratios with approximately 10% of buildings having

Figure 1

Operating Ratios Are Still High By Historic Standards

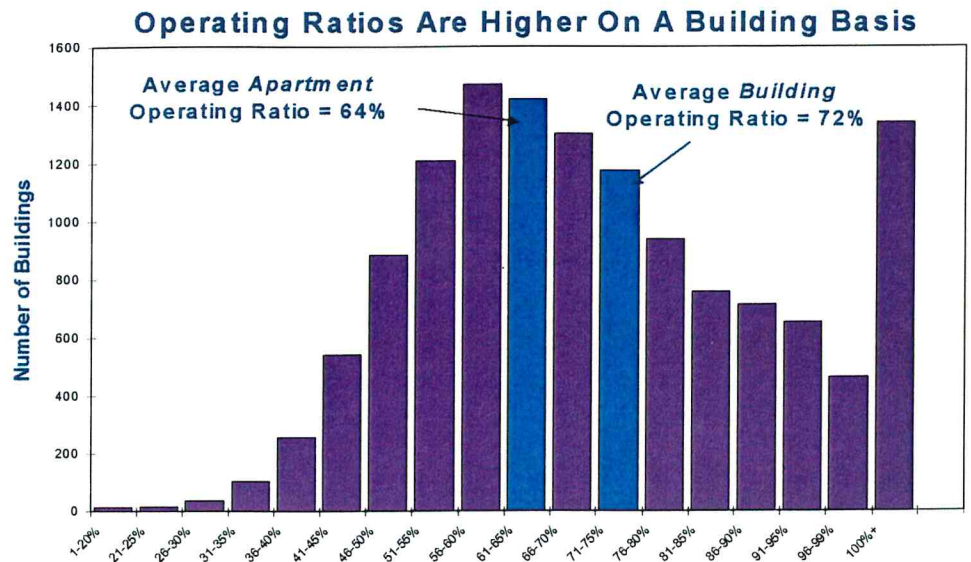




buildings having operating costs in excess of income and with all buildings with ratios above 70% considered to be buildings in marginal economic condition.

Several other factors should be considered with regard to the operating ratios considered by the RGB:

1. Operating ratios do not include the entire housing stock. Smaller properties (those with less than 11 units or assessed at less than \$40,000) are not required to file income and expense statements and are therefore excluded from the operating ratio calculation. Since smaller buildings tend to have higher ratios, and about 10% of the stabilized stock exists in buildings of less than 10 units, this measure underestimates the true operating ratio.
2. The operating ratios reported by RGB staff are adjusted downward to account for the results of a 1992 audit which is dated and unrepresentative. The audit found over-reporting of expenses ranging from 2% for larger owners to 15% for smaller owners. The RGB has since been adjusting everyone's expenses downward by 8%. Yet, when the audit was conducted, income and expense filings were a new requirement with which owners had little experience. Moreover, owners had little motivation to spend time and money accounting for their expenses when the audit had no direct financial consequence. It is very likely that a current audit, properly documented, would find far less over-reporting of expenses.
3. Often, the income to cost ratio is inappropriately used to describe the state of the housing industry. The income ratio includes rental income plus income from other sources such as stores, garages and laundry rooms. Only a small percentage of buildings, approximately 12%, have commercial income, but commercial income can have an enormous effect on average operating ratios. For



**Figure 2**

instance, the income ratio is 66% but the rent ratio is significantly higher at 73.5% (unadjusted). The use of the income to cost ratio conveys the notion that the housing industry is in much better condition than it is in reality.

### Price Index Is Underestimated

The Price Index of Operating Costs (PIOC), measured at 2.4% this year, is a mixed market basket which in some cases measures increases in prices and in some cases measures increases in actual costs. In either case it severely underestimates true increases in operating costs.

Where the PIOC measures price changes in such categories as contractor services, repairs and parts and supplies, it fails to account for the fact that aging buildings require ever increasing costs to be maintained in good condition. While the price index measures the increased rates or prices for certain repairs, it does not account for the fact that these repairs occur more and more frequently as our housing grows older. Since 70% of the buildings in the stabilized housing stock are more than 50 years old and 55% are nearly 70 years old, this factor takes on growing significance.

Similarly, the measurement of administrative costs, including the cost of paper, does not account for the fact that administrative and regulatory burdens are constantly growing, requiring not only more and more paperwork,



but also the increased use of accountants, lawyers, expeditors and other professionals.

Another example of the mis-measurement of prices occurs in the utility component, where the cost of electricity is measured on a point-to-point basis rather than on a cost-weighted basis as are other fuel and utility components. According to the RGB staff report, the price index reports a reduction in electricity costs, even though electricity costs are acknowledged to have increased.

While it may be impossible to construct a market basket which does not average and blend together various components, it should be noted that averaging tends to disguise underlying cost increases.

For example, the fuel component of the price index blends together the costs for three different types of fuel oil. According to the price index, there were significant differences in the cost changes for the different fuels, with #2 oil, primarily used by smaller buildings, increasing by more than 3%, while #4 oil increased minimally in cost and #6 oil decreased in cost (although we contest the finding that #6 oil decreased in cost since prices for all fuel types increased significantly over the prior year).

The averaging of these increases and decreases in price and consumption results in an overall decrease in fuel costs of .41%, and this result is factored into the price index to achieve the overall index of 2.4%. But this practice provides little relief for the owners of small buildings who saw their fuel costs increase by more than 3%.

Another example of the insidious effects of averaging occurs in the water and sewer component. Normally, the price index methodology would aggregate and average the increase in all water and sewer bills throughout the City to arrive at an estimate of increased cost. This year the RGB simply took the average 6% increase in water and sewer rates as the measured increase in costs.

Regardless of which way the water and sewer component is calculated, the measured increase in costs masks significantly higher costs for some owners. In this case, owners who have been placed on metered billing, rather than flat rate bills, can face costs which have increased by 50% more than the increase in flat rate bills.

To account for the way in which averaging hides real

increases in costs, the RGB must approve guidelines which are significantly higher than the price index.

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### **Qualitative Factors: Costs Not Included In the Price Index**

The Price Index is intended to function as a proxy for increases in operating costs and was never assumed to totally encapsulate all cost factors which affect rental property owners. Many costs of maintaining and operating buildings are not included in the Price Index and have generally been considered independently as "qualitative" factors as opposed to the "quantitative" factors incorporated in the Price Index.

This year, the primary qualitative factor to be taken into consideration is mortgage costs. Mortgage costs are the largest expense category within net operating income, commonly considered to account for 30% of rental income. With interest rates increasing and with operating costs already accounting for 70% or more of rental income, many rental buildings will be placed in an economic squeeze without significant increases in rents.

In addition to increased mortgage expenses, many other significant building expenses are not included in the costs measured by the price index. For instance, certain kinds of capital improvements such as lead paint abatements, partial replacement of building systems such as plumbing and electrical components, replacement of some but not all windows, partial waterproofing, roofing and parapet replacement and many other items are not eligible for major capital improvement rent increases yet are not included in the price index. These are also the kind of improvements which become more and more necessary as the housing stock continues to age.

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### **Projected Operating Costs**

Each year, the RGB projects operating cost increases for the upcoming year, and these projections are incorporated into the calculation of the commensurate rent adjustments. While it is always difficult to project into the future, this year's projection of a 1.9% increase in next year's costs is particularly flawed.

The projection of costs does not accurately take into account a likely 5% increase in the real estate tax rate for



Class 2 properties which will result from this year's adjustment of equalization rates by the state. This change will result in a large shift in the portion of the tax levy carried by Class 2 properties and will require a commensurate increase in the Class 2 tax rate.

In addition, the RGB staff report errs in calculating that the recently negotiated labor union agreement will result in little or no increase in labor costs. While the labor agreement was reported to have offset real increases in wages with lower wages for new employees and part-time help, owners will only see reduced costs to the extent that there is turnover among their employees. In most cases, buildings with stable, long term employees will only see increases in cost.

### Housing Conditions Related to Rent Levels

It has become evident, in a number of ways, that higher rent levels are directly related to improved building conditions. As indicated in Figure 3, the New York City Housing and Vacancy Survey consistently demonstrates that there are fewer maintenance deficiencies as rent levels rise. Apartments which rent for less than \$400 per month have nearly twice as many maintenance deficiencies as apartments which rent for \$700 or more per month.

Maintenance Deficiency Indicators and Contract Rent (All Stabilized Units)	
Rent In dollars	Mean Number of Maintenance Deficiency Indicators
Less than 400	2.02
400-499	1.89
500-699	1.53
700 or more	1.12

Figure 3

Source: 1993 NYC Housing and Vacancy Survey

This year, we have additional evidence of this phenomena in the form of a comparison of operating costs of regulated and non-regulated buildings (RGB 1997 Income and Expense Study ). The RGB found that

unregulated buildings spend considerably more on operating and maintenance costs (\$529 per month ) than regulated buildings ( \$425 per month). In fact, unregulated buildings spend more on every category measured by the price index than their regulated counterparts.

These findings led the RGB staff to conclude that "the typical level of service offered in the private market stock may be higher" ( p.8 ) and "growth in maintenance and labor costs [for unregulated buildings] may reflect improvements in service levels" ( p. 13 ). The higher expenditures for maintenance and operation in unregulated buildings are made possible by slightly higher rents than those which prevail in the regulated stock.

The conclusion to be drawn from these findings is that the inadequate levels of rent increase allowed by RGB rent guidelines over the years have constrained owners' ability to deliver improved building services to their tenants. The lower rents afforded to rent stabilized tenants come at a price and that price is reduced levels of service and reduced maintenance of buildings.

On the other hand, it is clear from looking at the experience of the private market that owners translate increased rents into greater expenditures on building operating costs and improved levels of service to tenants. We urge the RGB to vote for increased rents and higher services.

### Recommendations For Renewal Guidelines

Each year, the RGB staff provides the Board with a variety of possible combinations of one and two year rent guidelines, known as "commensurate rent adjustments," derived by applying various methodologies to the cost increase measured by the Price Index.

This year the commensurate rent increases range from 1% to 3% for a one year lease and from 2% to 5% for a two year lease. These commensurate rent levels have traditionally been interpreted as a floor, rather than a ceiling, on possible rent guidelines since qualitative factors and other considerations not contained in the Price Index must also be considered in establishing rent guidelines.

To a large extent, the commensurate rent adjustments this year are irrelevant. Potential rent increases of 1%, 2% or even 3% are so inadequate that they should not even

be a basis for discussion. Certainly owners cannot be expected to pay for the imminent increases in water and sewer charges and real estate tax rates, much less maintain or improve their buildings, unless rent increases substantially above these commensurates are enacted by the RGB.

Nevertheless, it may be helpful to understand why the floor for rent guidelines this year can be no lower than the highest of the possible commensurate rent adjustments.

The RGB staff report acknowledges that what is now called the "traditional" commensurate rent adjustment is

seriously flawed because "it does not necessarily accurately estimate the amount of income needed to compensate landlords for past O&M increases." ( RGB 1997 Price Index of Operating Costs, p.12 ). In fact, this formula underestimates the amount of rent increase needed because it assumes that all leases are renewed each year, whereas only two thirds of leases are actually renewed each year.

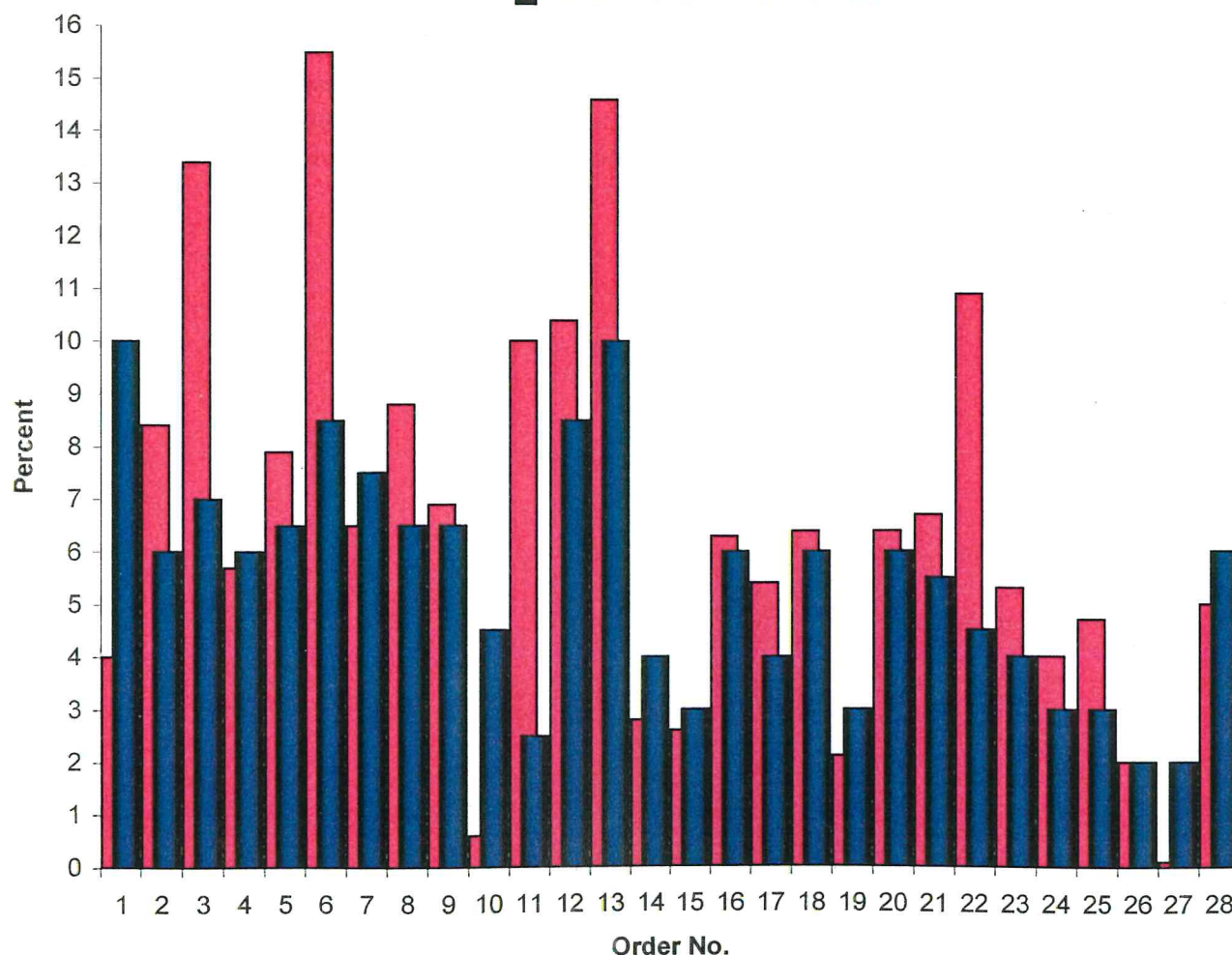
An alternative commensurate rent adjustment, termed the "net revenue" formula, does take the correct distribution of lease terms into account, but it does not adjust owners' net operating income for the effects of inflation. The result of not taking inflation into account

Figure 4

### Rent Increases Fall Below Cost Increases

■ Price Index ■ 1 Year Renewal Guidelines

■ 196%=Cumulative Increase In Price Index  
■ 161%=Cumulative Increase In Rents





is to say that if an owner had an NOI of 30 cents for every dollar in 1971, he would still be getting the same 30 cents in 1996, without adjusting for inflation, even though the value of the dollar has eroded significantly during that time.

A final commensurate rent adjustment model both corrects for the distribution of lease terms and adjusts for the effects of inflation on net operating income and is therefore the most appropriate model to use, particularly at a time when mortgage interest rates are rising and NOI is therefore being squeezed. This "CPI Adjusted NOI" formula results in the highest possible commensurate rent adjustments. On the basis of these considerations, renewal lease guidelines of 3% for a one year lease and 5% for a two year lease should constitute the floor for this year's rent guidelines.

Beyond the considerations of this floor level of rent increase, we ask the Board to further increase the guidelines in consideration of the following factors. First and foremost, the Board should permit a higher level of rent increase to allow owners to make up for maintenance which has been deferred because of inadequate rent guidelines

in the past and to permit owners to begin to approach the enhanced level of services available to renters in unregulated apartments. As indicated in Figure 4, the amount of rent increase authorized by the RGB has fallen significantly behind the increase in operating costs. Since the beginning of the rent stabilization system, operating cost increases as measured by the Price Index have increased by 196% while a series of one year leases would have increased rents by only 161%.

Second, the Board should acknowledge that mortgage interest costs have risen and are likely to increase further thereby reducing owners' return on investment and placing New York's housing at a competitive disadvantage with other investment options.

Finally, the Board must realize that the projections of operating costs for the upcoming year is underestimated, and that the increase in governmentally imposed charges alone, including real estate taxes and water and sewer charges, will require higher levels of rent increase.

As a result of these considerations, we ask the Board to approve a one year guideline of 5% and a two year guideline of 9%.

# The Problem Of Low Rent Apartments

For many years, the RGB has adopted a supplemental dollar adjustment for low rent apartments below \$400, recognizing that apartment rents must at least cover their maintenance and operating costs, and recognizing also that percentage increases translate into a smaller dollar amount for low rent apartments than for higher rent apartments. This course of action has been strongly supported by the Administration which recognized the underlying economic reality, and sought to keep rental properties in private hands, paying real estate taxes, rather than have these properties fall into City ownership and incur huge taxpayer funded expenditures.

This year, we ask the Board to maintain and expand the low rent adjustment by making it applicable to those apartments which rent for \$500 a month or less.

## New York Rents Are Low

Despite the notion of New York as a high rent city, it is important to note that the rent stabilized stock is characterized by low rent levels. The median rent for all stabilized apartments in 1996 was just \$600 per month, meaning that half of all apartments rented for less than \$600, with nearly a third (29%) renting for less than \$500 per month. In contrast, only 12% of stabilized apartments rent for more than \$1,000 per month and less than 5% rent for more than \$1,500 a month.

Data from 1995 income and expense filings provide a more dramatic, and revealing, picture. When we look at the average rent per building, rather than per unit, we find that 30% of stabilized buildings have average rents below \$400 per month and 60% of stabilized buildings have average rents below \$500 per month (see Figure 5).

Moreover, the RGB should recognize that the stabilized stock is saddled with 70,000 units of rent controlled housing with a median rent of just \$428 per month.

Clearly, this rental market does not contain a large number of high rent apartments to balance the income from the low rent apartments. It is a rental market characterized by a majority of apartments which are distributed over a narrow range of moderate rent levels.

## Minimum Rent Required

The current level of the low rent adjustment at \$400 was established in 1994 when the cost of maintaining and operating an individual apartment was less than \$400 per month. In the interim, the cost of maintenance and operation has risen to more than \$400 and, if for no other reason, the level at which the low rent adjustment applies should be increased to account for the effect of inflation on operating costs.

But there are additional reasons for increasing the level of the low rent adjustment. The operating costs measured by the Board do not include the costs of financing, nor do they include an allowance for vacancy and collection losses, nor do they include any provision for profit. A building which simply meets its operating costs, narrowly defined, will still not be economically viable if it cannot sustain a mortgage and provide a return on investment.

A realistic minimum rent would include a reasonable allowance for net operating income to cover financing costs and profit. Assuming operating costs of \$425 and an operating ratio of 75%, which is very high by national standards, apartment rent should average \$600 to meet average operating costs. More reasonable operating ratios would require even higher rent levels.

## Majority of Buildings Have Low Average Rent

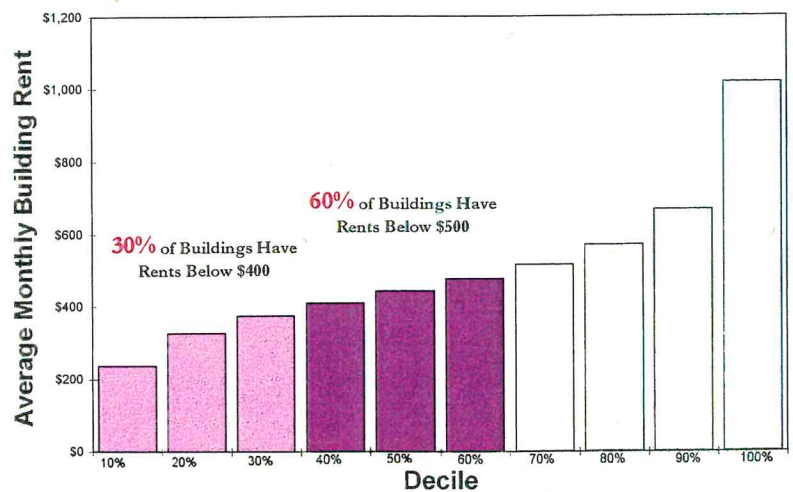


Figure 5

Source: 1997 DOF RPIE Filings



A minimum rent of \$400, in light of these considerations, is clearly inadequate. But these considerations also demonstrate that a majority of current rents are below the level needed to make New York housing an attractive investment option.

### Low Rents and Low Incomes

Board members may justifiably be concerned that some low income tenants will be adversely affected by the low rent adjustment. But simply because a tenant pays a low rent does not guarantee that the tenant has a low income. In fact, more than half of all tenants occupying low rent apartments can afford to pay higher rents based on the accepted standard of 30% of income going for rent (see Figure 6).

It is equally true that nearly half of tenants in low rent apartments appear to be paying as much or more rent than they can afford. But these tenants are generally protected by market limitations on rents, rather than rent regulation, which prevent the property owner from

collecting a higher rent from an alternative tenant. The Board is well aware of the phenomena by which collectible rents are held below their legal regulated maximum because of market conditions. This mechanism prevents owners from collecting authorized increases in some low rent apartments and provides the Board with some level of assurance that much of the potential negative impact on low income tenants will be averted.

### Relief Needed

We ask the Board to recognize that a majority of stabilized buildings are characterized by low average rents, that operating and financing costs have increased since the low rent adjustment was established at the level of \$400 per month, and that many low income tenants of low rent apartments are either able to pay increased rents or are protected from rent increases by market forces. Accordingly, we ask that the level of the low rent adjustment be increased from \$400 to \$500 per month.

**Low Rents Have Room To Rise**  
(All stabilized households)

Percent Households with Rent/Income Ratio Below:	Units with Contract Rent Less Than		
	\$ 3 0 0	\$ 4 0 0	\$ 5 0 0
1 5 %	1 8 . 9 %	2 1 . 2 %	2 0 . 7 %
2 0 %	3 3 . 6 %	3 3 . 6 %	3 2 . 9 %
2 5 %	4 6 . 1 %	4 4 . 9 %	4 4 . 8 %
3 0 %	5 5 . 1 %	5 2 . 9 %	5 2 . 6 %

**Figure 6**

Source: 1993 NYC Housing and Vacancy Survey

## The Vacancy Allowance

An additional allowance for apartments which become vacant has traditionally been viewed as a factor independent of the renewal guideline increases, and for good reason.

The vacancy allowance does not apply in a uniform manner across the rent stabilized stock and cannot therefore be factored into the commensurate rent adjustment calculations. Vacancies only affect 12% of all rent stabilized apartments each year and some of these turnovers may affect the same apartment more than once ( although no more than one vacancy allowance is permitted within a guideline period ).

Because the vacancy allowance applies so sporadically and haphazardly, it has generally been handled as a separate component of the rent guidelines, distinct from the renewal guidelines.

The vacancy allowance has also traditionally been viewed as means of maintaining the competitive position of the housing industry without affecting existing tenants. In other words, rather than place all of the required level of rent increase on existing tenants through renewal guidelines, some of the necessary increase in income was to be accomplished through vacancy increases.

But there are many other reasons for a vacancy allowance. For instance, the price index attempts to account for increases in normal day to day operating expenses but does not include the extraordinary expenses of refurbishing often associated with apartment vacancies, especially those which have had long term tenants. Many of these costs are not eligible for recapture through the individual apartment improvement mechanism.

Another purpose of the vacancy allowance is to correct the rent skewing which occurs with long term occupancies (see RGB staff report, "Rent Skewing in Rent Stabilized Apartments," 1994 ). Such rent skewing results from the desire to hold sitting tenants harmless from the effect of rent increases, but also results in rents which are significantly lower than the level needed to maintain and finance buildings.

This year, there is another consideration which should encourage the Board to enact a significant vacancy allowance. In the context of the current deliberations in Albany over the future of the rent laws, one must wonder whether the current crisis atmosphere could not have been averted had the RGB two years ago created an escape hatch by adopting the more liberal vacancy allowance then under consideration and, in general, if the Board had been more liberal in providing adequate rent guidelines throughout its history.

In this context, it should be noted that New York City is the only major urban center with a regulatory regime which controls rents upon vacancy. In fact, the state legislature in California recently decreed that localities may not limit the amount of rent increase available to owners upon a vacancy.

While New York State law may not allow the RGB to deregulate apartments upon vacancy, there is no reason to severely limit such increases since no tenant is directly affected by a vacancy rent increase.

In fact, the interaction of renewal guidelines and vacancy increases over the years have had a perverse and unintended consequence. To the extent that turnover is lower in buildings which are well maintained, these buildings must subsist on inadequate renewal guidelines alone, without benefit of vacancy increases. If a vacancy does eventually occur in such a building, it is further penalized by an artificial limitation on vacancy increases which may still leave the rent at a level far lower than for a comparable apartment in the neighborhood which had more turnovers.

In consideration of these factors, we ask the Board to adopt a vacancy allowance which would provide the greater of: the highest comparable rent, a minimum rent of \$500 per month or 25%. The proposed vacancy allowance would help eliminate rent skewing, would provide the minimal rents needed to maintain and finance rental properties and would provide the revenue necessary to refurbish apartments which become vacant.



## The Question of Housing Affordability

For years, the RGB has considered housing affordability as a counterweight to the need for rent increases required to maintain the economic condition of the housing stock. This has occurred despite the fact that the legislative mandate for the RGB does not mention affordability but does require the RGB to consider the health of the housing industry.

The lack of mention of affordability in the legislative mandate is appropriate as soon as one understands that the protection afforded to tenants by the rent laws is the limitation on allowable level of rent increase, not any particularly level of rent increase. In other words, tenants are protected, not by the difference in rent increase between 3% and 5%, but by the difference between 5% and no limit on rent increases whatsoever.

But this year's consideration of the affordability issue is further clouded by data recently released by the U.S. Bureau of the Census. This new data, which imputes incomes for the 30% of renters who do not report their income, show that the median income of stabilized renters is approximately 20% higher than previously reported, rising from less than \$21,600 to nearly \$25,300. According to the new data the average income of renters has also risen to approximately \$35,725.

While this new data does not indicate that most stabilized renters are wealthy, it does raise the issue of what their real income is. After all, although the new data adjusts for non-reported incomes, it does not adjust for under-reported incomes. And we know that all surveys of income include substantial under-reporting. Just on the basis of the HVS, we note that nearly 10% of renters report paying rent in excess of their income.

On another point of interest, the new data indicates that the median income of stabilized renters is nearly identical to that of unregulated renters. Yet, unregulated renters are able to afford substantially higher rents. This raises the question of why we are subsidizing one set of renters who would appear perfectly capable of paying higher rents, while a nearly identical set of renters pay market rents.

The revised Census data also brings the median percentage of income spent on rent back down below 30%. As Figure 7 indicates, a rent to income ratio below

30% not only places New Yorkers below the Federal standard of need, but also well below the ratios which prevail in most urban centers throughout the country and well below the U.S. median.

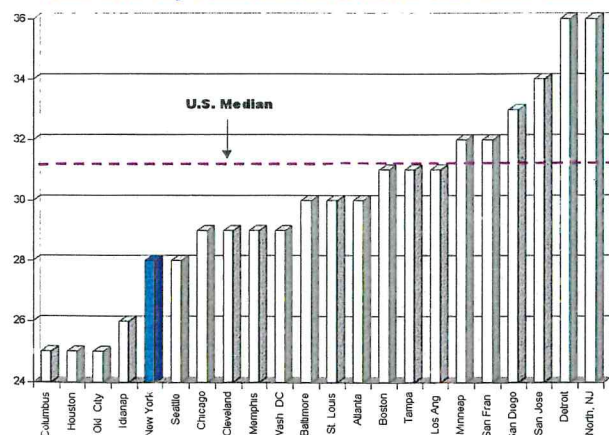
The new data increasingly argues that the average stabilized renter is not in need or deserving of rent regulatory protections. But what about the truly poor, those households with incomes below the poverty level, who have trouble finding housing in today's market?

It is a fairly common conclusion today, even among tenant advocates, that rent regulations do not protect the poor and that the poor cannot function in the private housing market without some form of subsidy. That is because, for the poor, housing affordability is a function of income, not of rent. As stated in last year's RGB Income and Affordability report, "most [of the poor] could not afford apartments with the lowest rents even if there were enough to house them."

Since the RGB cannot protect tenants at the lowest rung of the economic ladder, it should not enact guidelines on the basis of the worst case scenarios, just as the RGB does not pass guidelines based on the need to ameliorate the condition of the 10% of stabilized buildings which do not have sufficient income to meet their operating costs.

In light of the new evidence regarding the economic condition of renters relative to unregulated renters and to renters in other localities, and in light of the RGB's legislative mandate, we believe that considerations of affordability deserve little or no weight in the deliberations of the RGB.

**New York City's Rent Burden Is Lower Than Other Cities**



**Figure 7**