

THE CITY OF NEW YORK
RENT GUIDELINES BOARD

Hotel Order No. 5 - Rent Levels for Hotel Units, January 1, 1975
Through December 31, 1975

PURSUANT TO THE AUTHORITY VESTED IN IT BY THE RENT

Stabilization Law of 1969 and Chapter 576 of the Laws of 1974,
implemented by Resolution No. 276 of 1974 of the New York City Council,
the Rent Guidelines Board hereby establishes and adopts the following
guidelines for levels of fair rent increase over lawful rents
charged and paid on December 31, 1974 in hotel dwelling units:

Applicability

This Order shall apply to any hotel unit subject to the Rent
Stabilization Law or Chapter 576 of the Laws of 1974 and occupied
by a non-transient hotel tenant. The level of fair rent increase
granted herein shall be effective as of January 1, 1975 with respect
to any such tenants who have no lease. Where a lease is in effect,
unless the parties have contracted to be bound by this Order as of
January 1, 1975, or a subsequent date, this Order shall govern
the rent increases upon expiration of such lease on or after
December 31, 1974.

Guideline for Rent Increases

The level of fair rent increases over the lawful rent actually
charged and paid on December 31, 1974 shall be 8 per cent.

Additional Charges

It is expressly understood that the rents increased under the
terms of this Order are intended to compensate in full for all
services provided without extra charge on the statutory date for
the particular hotel dwelling unit, or at the commencement of the
tenancy if subsequent thereto. No additional charges may be made
to tenant for such services however such charges may be called
identified.

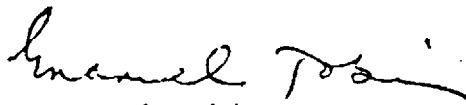


Excluded Units

This increase shall not apply where 40 per cent or more of the dwelling units in a hotel are vacant and unoccupied on December 31, 1974. In such case the owner will not be allowed the increase unless he can prove to the satisfaction of the Conciliation and Appeals Board that he has attempted in good faith to rent said units.

Special Guidelines

Pursuant to Section YY51-5.0e of the Rent Stabilization Law and Chapter 576 of the Laws of 1974, special guidelines relating to adjustment of initial legal regulated rents are inapplicable to hotel dwelling units.



Emanuel Tobier
Chairman
Rent Guidelines Board

Dated: March 24, 1975

Filed with the City Clerk: March 25, 1975



**THE CITY OF NEW YORK
RENT GUIDELINES BOARD**

EXPLANATORY STATEMENT AND FINDINGS OF THE RENT GUIDELINES BOARD IN RELATION TO 1975 INCREASE ALLOWANCES FOR HOTEL UNITS UNDER THE JURISDICTION OF THE RENT STABILIZATION LAW (HOTEL ORDER NO. 5).

PURSUANT TO THE RENT STABILIZATION LAW, AND THE EMERGENCY Tenants Protection Act of 1974, it is the responsibility of the Rent Guidelines Board to establish guidelines for hotel rent increases as of January 1, 1971 and annually thereafter. The above Hotel Order No. 5 establishes the guidelines increase for hotel units for the period January 1, 1975 through December 31, 1975. As with previous Orders, it is based upon material gathered from a number of sources including data prepared by certified public

accountants for the Metropolitan Hotel Industry Stabilization Association, Inc., and the "BLS 1974 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City". The Board set the allowable increase at 8 per cent for 1975.

In determining the appropriate increase allowance, the Rent Guidelines Board reviewed the 1974 cost increases for the various components of operating and maintenance expenses including payroll and related costs, laundry, linen replacement, fuel, utilities, real estate taxes, insurance, contract maintenance, administration and other costs.

Table I indicates the amount of increase in each of the cost categories, the per cent of the overall operating and maintenance expense represented by each category, the weighted increase for each category and the total percentage increase experienced in 1974. The numbers used in Table I were compiled from several different information sources.

The 1974 weights for each category were determined by a survey of the expenses of 35 hotels conducted by the Hotel Industry Stabilization Association and compiled by the accounting firm of Laventhol, Krekstein, Horwath, & Horwath. The percentage increases in each category are derived from data from the Bureau of Labor Statistics, Con Edison, other suppliers of goods and services or union contract data. The Report of the Hotel Industry claims that their costs increased 17.17 per cent last year. The Board has modified these figures somewhat and has determined that the increase experienced last year, as illustrated in Table I, was 11.36 per cent. The points in which the Hotel Industry report and the Board's findings differ are discussed below.

TABLE I
SUMMARY OF ANNUAL WEIGHTED COST INCREASES FOR THE
RESIDENTIAL HOTEL INDUSTRY OF NEW YORK CITY—1974

	Per cent increases 1974	1974 Weighting	Weighted increases 1974
Payroll and related costs	5.0%	51.0%	2.55%
Laundry cost	8.0	2.4	.19
Linen replacement	40.0	.5	.20
Electric current	51.4*	7.2	3.70
Fuel oil	62.3**	3.1	1.93
Steam	62.1**	1.0	.62
Water and sewerage charges.....	—	2.2	—
Contract maintenance	8.8	7.1	.62
Insurance	3.0	1.8	.05
Real estate taxes	6.7	11.0	.74
Other operating costs	6.0	12.7	.76
		100.0%	11.36%

* Reflects a 7% decrease in consumption

** Reflects a 20% decrease in consumption

The prices of fuel oil, purchased steam and electricity increased at unprecedented rates last year, 102.9, 102.6 and 62.8 per cent, respectively, for the residential hotels. Such price increases force conservation. In the past, the Board has used a price index to determine necessary rent increase allowances. Movements in such an index "are determined by changes in prices of goods and services purchased by building operators rather than by changes in both prices and quantities."* When price increases are not large enough to disrupt an owner's purchasing habits, a price index is an adequate measure of cost increases. Price increases great enough to force cuts in consumption, however, result in a price index which distorts and overestimates the true cost increase.

* B.L.S. 1974 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City", p. 15.

For reasons fully explained in the "Explanatory Statement and Findings of the Rent Guidelines Board in Relation to 1974 Lease Increase Allowances for Apartments Under the Jurisdiction of the Rent Stabilization Law" the Board determined that fuel and electric usage decreased by 20 per cent and 7 per cent, respectively, in 1974 for stabilized apartment buildings. The Board believes that the same cuts occurred in residential hotels. Such consumption decreases result in cost increases of 51.4 per cent for electricity, 62.3 per cent for fuel oil and 62.1 per cent for purchased steam. Table II illustrates how these figures are calculated.

TABLE II

Commodity	1973 Price	% Price Increase	1974 Price	1974 Cost if Consumption is Reduced	% Cost Increase
Electricity	100	62.8	162.8	$162.8 \times .93 = 151.4$	51.4
Fuel Oil	100	102.9	202.9	$202.9 \times .80 = 162.3$	62.3
Steam	100	102.6	202.6	$202.6 \times .80 = 162.1$	62.1

Because most, if not all, stabilized hotel units include the cost of electricity used in the units in their rents, the increase in the cost of electricity is fully reflected in the general increase granted by the Board. Thus, there is no need for special electricity inclusion increase such as the one granted for stabilized apartments for which the owner pays the electric bill.

Information submitted to the Board by the Residential Hotel Industry indicates that the average wages of personnel employed in the hotels increases by 9.7 per cent. The same report, however, includes information which leads the Board to believe that there was a substantial decrease in the number of employees in residential hotels in 1974. This decrease in staff indicates a decrease in the level of service for the tenants of residential hotels. The Board determined that because of decreased personnel, the payroll increased by 5 per cent, or only a little more than half of the average salary increase.

The category called "Other Operating Costs" in Table I includes, according to a list submitted by the hotel industry, the following items:

- Administrative Costs
 - Accounting Fees
 - Legal Fees
 - Management Fees
 - Association Dues
 - Trade Magazine Subscriptions
 - Printing, Stationary, Office Supplies
 - Net Telephone Expense
 - Advertising and Promotion
 - Data Processing of Payroll
 - Postage
- Parts and Supplies
 - Cleaning Supplies
 - Guest Supplies
 - Engineering Supplies
- Contractor Services
 - Window and Lobby Cleaning
 - Dry Cleaning
 - Snow Removal
 - Waste Removal

The subcategories included in the "Other Operating Costs" category increased according to the 1974 Bureau of Labor Statistics Report by 3.9 per cent for Administrative Costs, 8.8 per cent for Contractor Services and 16 per cent for Parts and Supplies. Table I taking these factors into account shows 6 per cent increase in "Other Operating Costs".

The operating and maintenance cost increase of 11.36 per cent experienced by the residential hotel industry last year must be multiplied by the ratio of operating and maintenance expense to income in order to derive the allowable rent increase. The Rent Guidelines Board has determined that operating and maintenance expenses account for 70 per cent of overall income. This figure is somewhat higher than the O & M ratio of 55 per cent used for stabilized apartment computations but it is also lower than the ratio claimed by the Hotel Industry. Individual hotels may have higher O & M ratios, but these cases are likely to be caused by low occupancy rates created by poor neighborhood, housing conditions or management.

Last year's cost increase of 11.36 per cent multiplied by the operating and maintenance cost ratio of 70 per cent results in an increase allowance of 8 per cent.

EMANUEL TOBIER, Chairman, Rent Guidelines Board.

Dated: April 9, 1975.

Filed with the City Clerk, April 9, 1975.