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Operating and maintenance costs climb in recent years to three times the rate of inflation

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In addition to steadily rising property taxes, the city's commercial landlords have faced a strong headwind in the form of rising costs on multifamily properties, especially for rent-stabilized owners, where there is limited upside on rent growth. In matching this expense inflation against rent increases, the city attempts to regulate its stock of more than 40% share of all housing like a public utility, not unlike Con Ed or DEP.

Operating and maintenance (O&M) costs in recent years have climbed an incredible 6% per year on average over the past decade, about three times the rate of inflation, as measured by the city's Price Index of Operating Costs (PIOC). Rent Guidelines Board performs this annual survey of costs as part of its process of setting rental rates, and is based on a basket of goods and services such as fuel/gas, electricity, insurance, legal, and maintenance.

The guidelines board estimates that average costs this year will rise by another 7%, and this figure does not consider Hurricane Sandy's effect on insurance rates, which will dramatically impact a number of areas around the city. Although O&M costs are factored into the allowable increases, the Rent Guidelines Board, with its commensurate adjustment formula, has been explicit in describing its intention of only allowing landlords to keep their net operating income (NOI) constant, or flat â€" despite generally increasing rental demand and potential for earnings growth.

"In essence, the 'commensurate' combines various data concerning operating costs, revenues, and inflation into a single measure, indicating, how much rents would have to change for net operating income (NOI) in stabilized buildings to remain constant." - New York City Guidelines Board.

In other words, the board allows for no measurable growth in profits for stabilized owners on average over time, and by its own admission, does not take into consideration the erosion of "base year" profitability through inflation, which causes real profitability to decline. The city measures the average profitability of landlords and then effectively grades on a curve, which penalizes buildings with higher than average O&M costs.

Nowhere is it more apparent, than in this equation, that landlords are intended to bear the burden of subsidizing New York City's growing housing shortage, and are regulated like a public utility with limited profit-potential, so that millions of New York City tenants may continue to live without the responsibility of market rents.

Similarly, developers and building owners have faced expense pressure on total construction costs in the five boroughs, despite moderated pricing on materials such as concrete, steel and copper. While pricing for these commodities is fairly consistent nationally, New York developers bear total costs dramatically higher than other major U.S. cities due to complex zoning limitations, extensive filing and permitting procedures, and union labor demands, all of which create delays and increase risk.

In one study by the New York Building Congress, all-in "hard costs" were estimated to be on average 25% higher than the same costs in Los Angeles, nearly 50% more than those in Atlanta, and over 60% higher than costs in Dallas.

These higher costs to build, operate and maintain multifamily housing inhibit profitability, and create a riskier venture for developers, who can make dramatic profits when pitfalls are avoided, or who can lose it all when delays or other problems arise.

These pressures serve to limit supply, and in turn, create a scarcity, or premium, valuation. While these basic rules of supply and demand govern pricing and market behavior, the policies that dictate taxation, zoning, and rent regulation are maintained by public officials who have clear policy objectives to raise city revenue and preserve some housing affordability. However, these policies have a broader implication, and that is higher rents and an increased cost of living for everyone else.

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