RPIE Guide

Real Property Income & Expense (RPIE) Statements

And Property Valuation

Property Classes

- Properties in NYC are divided into classes for the purposes of assessment. Each class has different procedures for assessment and determining property taxes.
- There are four classes of property in NYC.
  - Class 1 — 1, 2, & 3 Family Homes
  - Class 2 — Other Residential (including rentals, co-ops & condos)
  - Class 3 — Utilities
  - Class 4 — Commercial & all other
- **This presentation focuses on how DOF determines the Market Value for class 2 and 4 properties.**

RPIE Used to Determine Market Value

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- The first step in determining a property's taxable assessed value, which is used to compute tax liability, is to assign a market value to a property.
- NYS Law requires we determine Market Value for class 2 and class 4 properties by using income and expense data (rather than sales) reported by those or similar *rental* properties.
- DOF acquires income and expense data from most rental and other income-producing properties through annual submission of the Real Property Income and Expense (RPIE) form.
- Using income and expense data to calculate Market Values generally results in lower Market Values than those determined by sales.

RPIE Reporting

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- Owners of income-producing property with an Assessed Value of more than 40K are required to file RPIEs with some exceptions mostly for small residential properties.
- Most properties not required to file an RPIE have to file a Claim of Exclusion form.
- Properties that are required to file RPIEs are penalized from $300- $100,000 for not doing so depending on their Assessed Value.
- We assess penalties for non-filing because obtaining this information is essential to conducting property assessments.
- DOF also encourages voluntary filing by those not required to file.
- Filings are due in June for the previous calendar or latest fiscal year.

Property Info. Reported on RPIE

- The RPIE form requires income-producing properties provide information about the ownership of their property and its use including:
  - The number of buildings
  - The location of buildings
  - The number of residential and commercial units
  - The year the building was purchased
  - The proportion vacant for each type of space
  - The proportion of the building which is owner occupied

Income Reported to DOF on RPIE

- The RPIE form seeks data on income from the property including:
  - Rent from tenants, both residential and commercial.
  - Other building income such as common area maintenance income.

Expenses reported on RPIE

- In addition to income information, income-generating properties report expense data on the RPIE form, including:
  - Wages and payroll, a major expense of businesses
  - Repairs and maintenance, fuel, water and sewer, which are typical charges for a property being used for residential or commercial purposes.
  - Eligible expenses do not include real estate taxes, because taxes are reflected in the capitalization rate for the property.

Use of RPIE Data

- Once the DOF receives this reported income and expense data, what does it do with the information?
  - DOF uses the data to help determine the Market Value of properties for class 2 and class 4 properties.

Types of Class 2 Properties

- There are three types of class 2 properties which use RPIE information to determine the Market Value:
  - Larger rental buildings, co-ops and condos (11 units or more)
  - Smaller rentals, co-ops and condos (10 units or less), income only
- Many class 4 commercial properties, in particular larger properties, have the same assessment process as larger rental buildings.

Larger Rental Buildings & Commercial Properties

- Below are the major steps involved in calculating Market Value for larger rental buildings (class 2) and many commercial buildings (class 4), including office buildings, factories, stores, hotels, and lofts.
  - Step 1: Adjust the income and expenses reported by the property being valued (for most properties).
  - Step 2: Calculate adjusted Net Operating Income (NOI) by subtracting adjusted expenses from adjusted income.
  - Step 3: Divide the NOI by the capitalization rate to determine the Market Value. The capitalization rate is the estimated rate of return that an ordinary investor would expect on their investment for this type of property.
  - The next few slides explain these steps in greater detail.

Step 1: Adjust the income and expenses reported by the property being valued

- We adjust a property's reported income and expenses in a variety of ways to capture market conditions. We also strive to protect property owners from spikes or sharp decreases in value based on one year's data. Below are a few adjustments:
  - **Trending:** We project a property's income and expense to the taxable status date (January 5th) from data filed in the previous year and reported for the year before that. So for tax year 2015-2016, which had a taxable status date of January 5, 2015, RPIEs were filed by owners in 2014 and owners reported data for 2013.
  - **Addbacks for vacancies and owner occupancy:** We add on income for vacancy levels in a property beyond what is typical and for owner-occupied portions of a property that don't generate income but potentially could.
  - **Lease termination income:** We cap the percentage of income for payments for leases being terminated by renters.
  - **Amortize leasing commission and tenant improvement expenses:** We spread out the costs of commissions for bringing in tenants and improving renters' residences over the term of the tenancy.
  - **Adjust management expenses:** We establish a minimum expense for management expenses based on management expenses reported by all similar properties. This increases reported expenses for properties reporting management expenses below the minimum.
  - **Add a reserve replacement:** We establish a reserve replacement amount for short-lived items for buildings like roofing and appliances based on the median reported in previous years. This increases a property's reported expenses.
- Properties are also assigned an overall cap on the ratio of their expenses to their income in order to remove outliers, such as owners reporting minimal net income or net operating losses that, if left unadjusted, could distort a property's value.

Steps 2 & 3: Determining NOI and Market Value

- Adjusted net operating income is determined by subtracting adjusted expenses from adjusted income. The net income is divided by the capitalization rate to yield the Market Value of the property.
- Below is an example:
  - Adjusted income: $393,274
  - Adjusted expenses: $181,486
  - Net Operating Income: $211,788 (adj. income-expenses)
  - Capitalization rate: 14.451 percent
  - Market rate = $1,465,559 (NOI divided by “cap rate”)

Co-ops and Condos (Large)

- Below are the major steps involved in calculating Market Value for large co-ops and condos (class 2).
  - Step 1: Identify the most similar rental properties to the co-op or condo. Because we don't value co-ops or condos based on sales, but rather on the income and expense reported by rental properties, we have to identify rental properties similar to the co-op or condo building.
  - Step 2: Determine the adjusted incomes and adjusted expenses for the co-op or condo building using data from the 5 similar properties. Calculate the adjusted NOI.
  - Step 3: Divide the NOI by the capitalization rate to generate Market Value for the building. The capitalization rate is the estimated rate of return that an ordinary investor would expect on their investment in this type of property.
- The next few slides explain these steps in greater detail.

Step 1: Identify five most similar rental properties

- We look at numerous characteristics of large co-op or condo buildings and identify the 5 most similar properties. These factors include:
  - Income and Expense per Square Foot
  - Location
  - Size
  - Age
  - Use (residential or commercial or mixed)
  - Leases (regulated or unregulated)

Steps 2 & 3: Use comparable properties to determine net operating income and Market Value

- From as many as 5 similar rental properties to the co-op or condo, we determine the median income and apply it to the property being valued. The associated expenses for that comparable property is then applied. We then calculate the adjusted net operating income (NOI) by subtracting expenses from income.

FY14 - QUEENS COOPERATIVE COMPARABLE PROPERTIES as of 01/21/2014														
Boro-Block-Lot	Address	Neighborhood	BC	Total Units	Year Built	Gross SqFt	Estimated Gross Income	Gross Income per SqFt	Estimated Expense	Expense per SqFt	Net Operating Income	Full Market Value	Market Value per SqFt	Distance from Co-op in miles
4--00125---0028	46--01 39 AVENUE	SUNNYSIDE	D4--ELEVATOR	158	1961	155,750	2,141,782	13.75	1,055,213	6.78	1,086,569	7,147,000	45.89	N/A
COMPARABLE RENTAL - 1														
4--01249---0018	33–2477 STREET	JACKSON HEIGHTS	D3--ELEVATOR	216	1951	176,000	2,420,248	13.75	1,192,408	6.78	1,227,840	11,908,000	67.66	1.43
COMPARABLE RENTAL - 2														
4--00132---0067	49–15SKILLMAN AVENUE	SUNNYSIDE	D1--ELEVATOR	99	1942	72,000	1,010,651	14.04	449,549	6.24	561,102	7,561,000	105.01	0.25
COMPARABLE RENTAL - 3														
4--00207---0001	39–20GREENPOINT AVENUE	SUNNYSIDE	D1--ELEVATOR	140	1958	114,486	1,534,774	13.41	784,080	6.85	750,694	7,131,000	62.29	0.92

- We then divide the NOI by the capitalization rate to obtain the Market Value. See slide 11 for an example.

Rental Buildings, Co-ops and Condos (Small)

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- Smaller class 2 buildings are also valued using data reported by RPIE filers, but many smaller rental buildings are not legally required to file a RPIE statement. We thus use the Gross Income Multiplier (GIM) method, which uses available income information and does not require expense information, to value the properties. The GIM is an income-to-value factor, which is multiplied by a property's annual expected income to determine the property's Market Value.
- To determine the GIM:
  - We identify the typical annual income earned by small rental buildings in the area from those that file an RPIE.
  - We determine a typical price by neighborhood by using four years of sales data for similar properties.
  - The GIM is sales divided by annual income for these properties.
  - The GIM is adjusted downward to reflect a stable growth rate for the properties. We then apply the GIM to a particular building in the neighborhood.
  - We multiply the building's estimated annual income by the GIM to generate its Market Value. For example, a building with income of $100,000 and a GIM of 10 would be valued at $1 million.

Market Value to Property Taxes

- Once we have determined Market Value for large rental buildings, commercial properties, or large or small co-ops and condos, we then determine the Assessed Value, which is used to calculate property taxes.
- This process is discussed in other guides published by DOF and online at http://www.nyc.gov/html/dof/html/property/calculating_property_taxes.shtml