

THE REAL DEAL

The end of free lunches?

March 01, 2010 *By Candace Taylor*

In the past year, New York City renters have come to expect a bevy of incentives, like months of free rent, landlord-paid brokers' fees, and even -- in the case of boutique luxury rental 436 West 20th Street -- a butler.

Could these perks be disappearing?

In recent weeks, brokers have reported that landlords are doing away with concessions, and even increasing rents.

"As their vacancies begin to drop, landlords around Manhattan are beginning to test rent increases," noted Daniel Baum, CEO of the Real Estate Group New York, in a January market report. "Some of the major players, and even a few small outfits, have begun to remove concessions and bump up prices ... around \$100 to \$200 per unit."

Then, in late February, TREGNY revisited the subject, reporting that some of these tests were successful. "While some properties did return to their original offerings, there were equally as many that did not," Baum wrote, adding that rents inched up slightly from the previous month and were down only 2.99 percent from February 2009, according to the company's calculations.

Citi Habitats president Gary Malin told *The Real Deal* he's seeing the same phenomenon.

"A decent amount of product has been absorbed in the rental market, and we are now seeing incentives such as free rent or owner-paid commissions disappear on some properties," Malin said.

This isn't the first time landlords have tried cutting back on concessions. A few owners gave it a shot last spring, TREGNY reported, but by June, they'd gone back to offering the same old incentives.

So why are concession-free rentals gaining some traction this time around?

First, demand seems to be increasing, said Adina Azarian, the president of rental firm Adina Equities. "Rental brokers are starting to see a pickup in the number of calls they are getting on their advertising efforts," Azarian said.

It's notoriously difficult to track rental vacancies, since most data is self-reported by landlords, but inventory appears to be declining a bit. TREGNY estimated in its report that vacancies in doorman buildings fell by 9.65 percent between January and February, and 3.02 percent across doorman and non-doorman buildings.

For its part, Citi Habitats put the citywide rental vacancy rate at 1.59 percent at the end of January, down from 1.84 percent the previous month.

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As a result of these factors, "clients have recently been competing with other [applicants] on the same apartments, and bidding wars are not unheard of," Malin said. "This is especially unusual in the winter months, so it has brokers talking."

The activity, of course, is centered around the most desirable apartments.

"Renters are being slightly less overzealous about it being a 'renter's market' and are, in fact, realizing that you still have to pay top dollar or a broker's fee for a desirable rental," Azarian said.

That realization may also be seeping through the residential market as a whole, though the sales market has to contend with an obstacle rentals don't face: the difficult mortgage market.

"What is continuing to be the most challenging part of the transaction is financing the deal," said Francisco Menendez, an associate broker at Barak Realty.

Or, as Wohlfarth & Associates president Rick Wohlfarth put it, "The banks haven't loosened up their lending practices enough, and many qualified homebuyers are still getting the shaft." Still, sales brokers, too, are seeing some bidding wars and multiple interested buyers, especially for well-priced properties.

"My customers and I have lost a number of bidding wars in the \$500,000 to \$1 million range, so it's clear the buyers are back," said Mabel Cheah, a sales associate at the brokerage Core. "There is more open-house traffic and requests for appointments."

Victoria Shtainer, a senior vice president at Prudential Douglas Elliman, said: "We have sold three apartments in Brooklyn that we had on the market for 10 months."

Wohlfarth said his company recently sold a high-floor unit at 780 West End Avenue for \$200,000 over the asking price, after receiving ten different bids.

"Multiple bids and higher prices are back, if you have the right property to sell," he said.

At the root of all this activity is not so much a miraculous return to prosperity, but an "attitude change," and just a general lightening of the mood on the part of buyers, sellers, and renters, said Phyllis Pezenik, a managing director at DJK Residential and vice president of the Manhattan Association of Realtors.

Sellers "have finally absorbed the fact that this is not the market of a few years ago, and they have to adjust their pricing accordingly," she said. Buyers, in response, "seem to be saying, 'Time to come off the sidelines and get in the mix.'"

In part, that's because buyers "feel more confident in their jobs than they did a year ago," said Rich Bouchner of Bouchner & Co. Real Estate. "I think that we are much closer to equilibrium than we have been in a while."

Industry insiders also noted that parties are popping up more frequently. Harlem's Livmor Condominium on West 115th Street held its grand opening party on February 25th (Downtown Brooklyn's Toren was slated to hold its grand opening the same night, but postponed the fête to March due to snow.) Brown Harris Stevens hosted a sushi luncheon at Nobu 57 to market Miami Beach hotel-condo Canyon Ranch, and Core held a party

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February 16 to celebrate the anniversary of its new Chelsea flagship office.

New Williamsburg development Century Vintage held a broker party Feb. 18. Also in February, several of the city's major brokerages held their annual awards ceremonies, including Prudential Douglas Elliman's at Cipriani 42nd Street, the Corcoran Group at the Nokia Theater in Times Square, and Citi Habitats at Scandinavia House.

John Reinhardt, the president and CEO of Fillmore Real Estate, said even recruiting events "have tripled in attendance."

Still, price increases don't seem likely in the near term.

"Brokers are much more optimistic and have breathed a sigh of relief as market conditions have improved, but many are still cautious," said Jordan Tepper, executive director of sales at Century 21 NY Metro. "No one believes that [prices] will be spiking upwards any time soon."

Steven Ganz, president and co-founder of Aligned Real Estate, agreed. "Sale prices are not really increasing yet, as buyers remain focused on finding a good deal," he said.