

February 1, 2009

A Month Free? Rents Are Falling Fast

By ELIZABETH A. HARRIS

IN this painful economic climate of layoffs and shrinking investments, there is a sliver of positive news: it's a good time to be a renter in [New York City](#). Prices are falling, primarily in [Manhattan](#), and concessions like a month of free rent are widespread.

Although it is notoriously difficult to quantify the state of the rental market, rents fell in almost every sector of the Manhattan market last year, according to [the Manhattan Rental Market Report](#) produced by the Real Estate Group, a New York brokerage. The steepest drop was in one-bedrooms, down 5.7 percent in buildings with doormen and 6.53 percent in buildings without. The only category that rose: rents for two-bedroom apartments in doorman buildings, up just a bit, by 0.61 percent. But these numbers, like most available data, represent asking rents rather than the final price. Anecdotal evidence suggests that some people are negotiating rents as much as 20 percent lower than the original prices asked by landlords. These figures also leave out incentives, like a month of free rent or a landlord's paying the broker fee, which can add up to real savings.

Fritz Frigan, executive director of sales and leasing at Halstead Property estimates that when these incentives are considered, rents are actually down some 10 percent to 15 percent since the market peak in mid-2007.

"In that really strong market," Mr. Frigan said, "landlords didn't have to do anything." In 2008, that was no longer the case.

In January 2008, Halstead had about 90 listings for which the owner offered to pay the broker's fee. By the summer, that number had pushed upward, hitting about 450 a month.

"Then, in September or October, the whole thing broke loose," Mr. Frigan said.

In a one-month period, from Dec. 23, 2008, to Jan. 23, 2009, some 1,700 of Halstead's 9,000 total rental listings included owner payment of the broker's fee.

Jimmi Circosta, a vice president and associate broker at Citi Habitats, also saw a big slowdown in the autumn, which he pegs to the collapse of [Lehman Brothers](#) in September. "Once that news hit the marketplace," he said, "it just got really quiet."

Tom Botts and his wife, Libbie Rice, found all kinds of deals from landlords when they went apartment hunting this winter, and they were able to negotiate a reduction in the rent on the Upper West Side three-bedroom that they finally chose. They also encountered a symptom of the market that was simply unheard of in recent years: their previous landlord offered to lower their rent if they renewed their lease.

“We had a truly un-New York experience with our old landlord begging us to stay,” Mr. Botts, 39, said in an e-mail message. The owner offered a rent reduction of more than 10 percent, but the couple had already found an apartment they preferred and were committed to moving.

It’s impossible to say how often owners are lowering rents to encourage tenants to stay put, but anecdotes are starting to surface. “It’s not a common occurrence,” said Mr. Circosta of Citi Habitats, “but it is happening.”

Mr. Botts, a partner at Hudson Crossing, a travel industry advisory company, and Ms. Rice, 44, who does similar work as an independent consultant, hope one day to buy an apartment for themselves and their children, Tommy, 4, and Camille, 2. But they have decided to hold off for now. “The economy feels too scary,” Ms. Rice said.

They have a lot of company on the sidelines of the sale market.

“It certainly makes renting more attractive when the rental market softens,” said Gary H. Schatsky, a financial adviser in New York. “If people suspect — as most people do — that the [New York City](#) sales market will get much softer, and they’re able to rent in the meantime, then being able to negotiate a rental rate puts you in a better position.”

Teresa Hsiao found a kinder-than-expected rental market when she moved to [Manhattan](#) from [Los Angeles](#) last month.

“I was expecting to live in a box,” she said. She looked at more than 10 apartments and found lots of concessions on nice spaces that added up to substantial price cuts. “Everyone was paying the broker fee,” she said. “They were very flexible on their lease terms. One broker told me: ‘We’ll get it done for you. Just name your price and we’ll do it.’ ”

Ms. Hsiao, 23, and her roommate, David Liu, 24, settled on a two-bedroom two-bathroom apartment in Midtown on the West Side. It was listed for \$4,200. They offered \$3,650 a month and were accepted. After one month free and a \$2,000 signing bonus, the total came to \$3,215 monthly, and they did not have to pay the broker’s fee.

“This apartment was definitely a great find and a bargain compared to 1.5 years ago,” Mr. Liu wrote in an e-mail message. “It’s definitely a renters’ market now.”

The creation of jobs is one of the primary ingredients in a strong rental market, and people like Ms. Hsiao and Mr. Liu, who both moved to New York for work, used to be its lifeblood. Now their numbers are dwindling as the city has begun to shed jobs.

According to the [New York State](#) Department of Labor, New York City lost 49,100 private-sector jobs from December 2007 to December 2008, which helped send the unemployment rate from 5.1 percent to 7.4 percent.

“People assume when sale slows down, rental will pick up, but that depends on what the source of this is,” said Gregory J. Heym, the chief economist at Terra Holdings, which owns Halsted and Brown Harris Stevens. “When you’re losing jobs, the rental market is also going to suffer.”

While prices have started to slide in Manhattan, they are steadier in [Brooklyn](#). Increasingly, however, there are deals to be found, especially in neighborhoods like Williamsburg that have seen a lot of new construction.

Last July, James McGuinness, 23, and his partner, Louis Kerscher, 25, moved into an apartment in Windsor Terrace, Brooklyn, for which the owner paid the broker's fee. Adrian Cardona, a broker with the company they used, Rapid Realty, says he has seen more owner payments since the summer. "Absolutely," he said. "They have no choice."

Patrick McGrath, a managing partner at Taurus, which owns a recently converted luxury prewar rental building in Brooklyn Heights called the Standish, says the Brooklyn market has softened, but not a lot.

"We're not renting as fast as we would have expected," Mr. McGrath said. "We've had to provide concessions — a free month rent, we pay the broker fee. But rents are around where we expected them to be. We're in the ballpark."

Owners with more property — and deep pockets — generally would rather offer incentives than reduce rents because when the market comes back, they start from a stronger bargaining position. But landlords of smaller buildings tend to just lower the rent.

Allison Gill and Hadley Hege, both 22, found that they had some bargaining power when they went apartment hunting late last year. Ms. Gill, a law student, and Ms. Hege, an actress, looked at a two-bedroom apartment in a three-unit building in Cobble Hill, Brooklyn, listed for \$2,000. They took it for \$1,900.

The rental market in [Queens](#), meanwhile, is relatively stable.

"The prices are not going up," said Donna Reardon, Queens divisional manager for Prudential Douglas Elliman. "They're staying the same." Concessions are still an exception rather than the rule in that borough.

It is in Manhattan, which saw steep price gains in recent years, where the discounts can be substantial now — even on the higher end.

Sara Nuttall, her husband and their 11-year-old twins relocated to New York at the end of last year from Dakar, [Senegal](#), where they paid \$2,500 for a five-bedroom house with a garden. They were looking for a three-bedroom apartment and started with a budget of about \$6,000 a month.

Senad Ahmetovic, an associate broker and vice president at Halstead, showed them about 35 apartments.

"In my 10 years' experience, I haven't seen so many three-bedroom apartments on the market," Mr. Ahmetovic said. "It just seemed endless. In the past, they weren't being offered with incentives, because there were so few available at any given point."

That, it seems, is no longer the case.

"We started to discover that there were incentives there for us," said Ms. Nuttall, 52. "That made a big difference. It meant we could get something that was a bit nicer, a bit more what we wanted for the same price."

They eventually settled on a three-bedroom three-and-a-half bath apartment in east Midtown. It was listed for \$8,500 but they were able to negotiate the rent to \$8,000 a month. They also received a free month of rent, and the owner paid the broker's fee. Their monthly payment will be \$7,400. That \$1,100 decline represents a 13 percent decrease from the asking rent, not including the money saved on the broker.

Ms. Nuttall found the apartment in December, always a slow time in the rental market. But seasonal sluggishness does not explain the discounts that she encountered.

"In any last quarter, the rental market always adjusts — vacancies rise and prices dip, every year," said Gary Malin, the president of Citi Habitats. "This year there was substantially less activity than you would normally see. There was an extra layer of pressure on the rental market — and the world at large — that forced prices down further and vacancy rates higher."

Some landlords hope that adjusting leases to expire in summer 2010 will get a better price next time around.

Amy Baglan, 26, and her boyfriend, Johnny Muñoz, 28, found a one-bedroom apartment in a prewar building on the Upper West Side at the end of last year. They negotiated a cut of \$200 per month in the rent and received a free month. (They connected with the owner on [Craigslist](#) and did not use a broker.) But they signed a 16-month lease, which will expire at the end of April 2010.

Mr. Muñoz wondered why his landlady was not offering a standard one- or two-year lease. "Do you want to make sure this is open and available during the prime season of rentals?" he said he asked. She chuckled and said yes, Mr. Muñoz said.

Mr. Muñoz's landlady may get a boost from the warm weather, but no one knows where the market will be in 2010.

"My assumption would be over the next year that you're going to see effective rents drop because of the increase in concessions," said Andy Joynt, a real estate economist at Property and Portfolio Research, an independent research and advisory firm. "We're forecasting that asking rents are also going to drop," he added. "We'll see if that ends up being reflected in the numbers."

Marc Lewis, the president of Century 21 New York, has seen several recessions in his many years in the business, most recently after Sept. 11, 2001. "But in the past," he said, "it always felt like it would be a few months and then it would be over. This one, we don't have an answer yet."

Many people — including President [Barack Obama](#) — are suggesting that the economy is likely to get worse before it gets better. And the rental market is unlikely to strengthen until the economy, and the job market in particular, turns around.

According to the [Independent Budget Office](#) of New York City, the outlook is bleak. The agency expects the city to lose 243,000 jobs from the peak of early 2008.

"Let's hope this is a short-term problem," said Vicki Been, the director of the Furman Center for Real Estate and Urban Policy of [New York University](#). "You know, we prefer more affordable housing, until there's a downturn. And then we panic."

