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Choppy rental market leaves landlords punch drunk

BY MAGGIE HAWRYLUK

It's up, it's down, it's more or less a mixed bag — the rental market has taken brokers and landlords for a ride these past two months, and the peak season has only begun.

"Rental prices are all over the place. In virtually every neighborhood there are ups and there are downs," said Daniel Baum, chief operating officer at The Real Estate Group NY. "It appears that owners themselves don't know what to expect. It's almost, dare I say, like the first round of a boxing match where the contestants are feeling each other out."

While Baum said many market speculators were holding their breath last month to see how business panned out in June before taking any further steps, Marc Lewis, chief operating officer at Century 21 NY Metro, said he saw the tell-tale signs of a slowdown last fall.

"This year, things are completely upside down and very different from every other summer I have ever experienced," the 36-year industry veteran said. "I started talking about a recession last October when I noted that there was a very large inventory of un-rented apartments after the summer season of 2007, and to me this was an inventory imbalance which I believe was a result of not enough new-hires coming to the city."

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And with constant announcements of falling stocks, rising energy prices, Wall Street write downs and job cuts, Lewis isn't surprised Manhattan's pricey rental market is beginning to take a hit.

"We have to remember that things change and everything is a cycle, but this is a bad one," he said, adding that his friends who've been working on Wall Street for about 40 years say this is the worst they've seen yet. "This could last two to three years."

However, Lewis expects that July and August will be busy as brokers will be working harder with clients who now have a larger stock to shop and aggressive landlords offering incentives and owner-paid fees.

"The question is: Will they be able to get absorption with these OPs without lowering rents?" said Baum. "No one wants to reduce rents."

According to The Real Estate Group's June report (Baum will be collecting data for July this week), many landlords have succumbed to dropping their asking rents, while others are seeing a high demand.

While doorman two-bedrooms in every neighborhood but Midtown West saw increases as much as 7.4% — Baum credits this to the demand from young professionals opting to share apartments — both doorman and non-doorman studios and one-bedrooms, and non-doorman two-bedrooms in all Manhattan neighborhoods were teetering month to month as landlords try to gauge the market's response.

According to Citi Habitats' mid-year report that was released last week, the rental market was faring well so far with the overall vacancy rate in Manhattan at 1.12% for the second quarter of 2008, representing a 0.3% increase from last year. Market-wide for Manhattan, the average monthly rental price for a studio was $1,887, down 2.1% from last year; a one bedroom was $2,623, increasing by 2.2%; a two bedroom averaged at $3,769, decreasing by 2.1% year over year; and a three bedroom was $4,948, down 1.8%.

As expected, with the peak season upon us, the second quarter fared better than the first, posting improvements in vacancies and rents. With these results, Gary Malin, president of Citi Habitats, has high expectations for this year.

"People shouldn't look at these slight retractions in rents and correction in vacancies as reason to panic. There are no severe problems," he said, noting the fact that 2006 rents climbed 10.4% over 2005 levels and 5.5% in 2006 over 2007. "In every business there's ultimate highs and then corrections."

While a landlord's biggest fear may come true in having to drop rents slightly, Baum warns that even this may not open the floodgates for a higher demand.

"The consumers get a little break, but it's not a big break," Baum said. "The strength of our market may have done us a disservice. A lot of people have been priced out and moved to places like Queens, Brooklyn, Hoboken, and have set up communities there. They may not want to leave even if rents do go down."

Lewis also noted that some landlords simply won't be able to afford significant cuts.

"A major issue is the 'trickle down' of expenses such as fuel, insurance, water, help, real estate taxes, etc. that owners have to pay. They need these higher rents to offset their increased expenses," he said. "I just went over a rental list from a prominent owner and he now has 40 empty apartments out of his portfolio of 3,500 units compared to less than 10 in July of 2007."