THE REAL DEAL

June 2014

http://therealdeal.com/issues_articles/landlord-incentives-persist-in-pockets/

Despite strong rental market, incentives persist in Midtown and other areas

With record-high rents and extra-tight inventory, fewer Manhattan property owners are dangling incentives to lure renters and brokers to their buildings. But the practice persists in certain neighborhoods — predominantly Midtown — where competition to fill rental units is fierce.

Even as Douglas Elliman data shows overall average monthly rents hit a five-year high of $3,247 in April, brokers said that owner-paid commissions, or OPs, linger in select locations. OPs, of course, allow owners to advertise their rentals and "no fee" apartments to tenants because they are footing the brokers' commission fee.

Brokers say despite rising rental rates, the practice, which is generally used when the market is softer, is nevertheless being employed at the newest and biggest rental buildings in Midtown.

Glenn Lawrence, a broker at Town Residential, said he is largely seeing OPs stick in Midtown West, especially in buildings such as the Gotham Organization's Gotham West, Rose Associates' the Helux, Roseland Properties' Riverbank West; Silverstein Properties' River Place and Silver Towers, and Durst Fetner's the Helena. These six developments have a combined 4,433 units. More than 2,000 of them, at Gotham West and Silver Towers, hit the market over the past several years, creating a temporary glut.

Officials at Gotham and Rose declined to comment, while officials at Silverstein, Durst Fetner and Roseland did not respond to requests for comment.

In addition, Lawrence said landlords east of Second Avenue, in some buildings in the Financial District, and in small pockets through the Upper West Side and the Upper East Side continue to offer incentives. "I am seeing some [owner-paid commissions] linger, but only in the areas where the buildings absolutely need to," Lawrence said.

Brokers say the commissions serve as a valuable tool for efficiently filling vacancies, especially in new rental buildings where a large number of units need to be leased up quickly.

"Any big rental building entering the market is bound to soften it a little," said Yuval Greenblatt, an executive vice president at Elliman, "but it is a very temporary softening."

Anthony Lolli, CEO of brokerage Rapid Realty, pointed to Avalon Midtown West at 250 West 50th Street among other locations where OPs are lingering. Some management companies offer OPs on a month-to-month basis, often to the chagrin of brokers, Lolli noted. A spokesperson for Avalon could not be reached for comment.

"They turn it on and off like a faucet, whenever they expect vacancies," Lolli said. "It drives brokers crazy."

The good news, for landlords at least, is that while they need to offer incentives to fill units in some select buildings and neighborhoods, the trend is largely on the decline.

On the whole, the use of OPs and other incentives dropped to 9 percent of all Manhattan rental deals in April, according to a monthly report from brokerage Citi Habitats. By comparison, in January, the share of general move-in incentives in Manhattan was 13 percent. The numbers are far below those during the recession in 2009, however, when these incentives averaged 52 percent of all Manhattan rental deals.

But not all brokers are seeing a rollback of concessions in their daily rental business.

Platinum Properties sales and leasing director Sang Oh said the spring "is usually the time where landlords become more confident in their ability to control vacancies and take away concessions."

But he added that while some landlords have started to scale back concessions, in the buildings he handles, some of them large rentals, "many more have kept concessions on the table, and leasing activity within those buildings is far greater than those without."

"Buildings are now releasing inventory much further out than they used to," Oh said, noting that it may be an indication that landlords are nervous about the market. "Most buildings release inventory with move-ins from immediate to one month out. Now buildings are releasing inventory out to August and September. That's something new."

In addition, the owners of those buildings are offering concessions on the later move-in dates, he added.

"Every summer these incentives tend to go away, but it doesn't appear to be occurring as quickly this year," Oh said last month. "It's worth keeping an eye on."

"It becomes rolled into the cost of doing business, as opposed to lowering rent," Oh added.

One area where there is a sharp drop in OPs from just a few months ago is the Financial District, because landlords there believe demand is strong enough to avoid the incentives route, sources said.

Oh said he expects more landlords to do away with OPs in the coming months, as many already do much of their marketing in-house. He noted that he would prefer a more traditional leasing market in which "fee versus no-fee is not even a question."

"If you work with a broker anywhere else in the world, [the tenant] will pay that broker a commission for their work," Oh said. "If OPs didn't exist, the question of 'fee or no-fee' wouldn't even come up. I honestly believe that's where the majority of the negativity toward brokers comes from."