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NEW YORK CITY REAL ESTATE NEWS

Fleeing new(ish) buildings

Concession-seeking renters, hit with renewal increases, pack their bags after first year

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By Candace Taylor

Britney Hatcher, an agent at City Connections Realty, has recently received a number of phone c angry tenants in new rental buildings on Manhattan's Far West Side.

A year ago, she explained, these tenants took advantage of concessions offered by developers c buildings — often one, two, or even three months of free rent. But now that these buildings are fu and the rental market has improved, they're being hit with renewal notices asking for $500 or $60 month than they are currently paying.

These hefty increases are forcing many tenants to move — and they're quickly discovering that t find comparable apartments in their price range, Hatcher said.

"This is setting loose a lot of unrealistic apartment hunters who are mad at the world," Hatcher sa want a doorman building for $2,500, and don't want to hear that all you can get for that is a walk-broker fee."

For the past two years, many developers have successfully filled their new buildings with renters lured by attractive incentives. But keeping initial renters is a different story.

Concessions have recently begun disappearing as the rental market has improved. The contrast is starkest in buildings that finished const the past two years: During the initial lease-up, landlords offered new renters several months of free rent, but they're not nearly as generou the buildings are full. (Brand-new buildings hitting the market now are still likely to offer a month free, but concessions are skimpier than th during the worst of the downturn.)

That means many tenants are in for a rude awakening as new buildings begin their first round of lease renewals. So far, developers say th enough new tenants to make up for the lost renters. However, industry insiders expect higher vacancies and the return of concessions in tl to come, especially as the slow winter months arrive.

"Over the last quarter, most landlords said, 'We're not going to offer much,'" said Stephen Kotler, an executive vice president and director at Prudential Douglas Elliman. "Maybe they went too far."

Rental activity has risen dramatically in recent months. An Elliman report tracked 8,593 new rental transactions in the third quarter of 2010 2,549 in the same period of last year and 5,659 in the previous quarter.

Since hiring in New York City remains stagnant, experts said the spike in activity isn't caused by a flood of new people moving to Manhattar they posited, it's the bevy of tenants that have decided to leave their apartments because their landlords stopped giving the rent breaks th abounded during the recession.

"We're starting to phase out the concessions that people have been getting for the past two years," said Jon McMillan, director of planning developer TF Cornerstone, which is just completing the lease-up of two new rental buildings, 505 West 37th Street and 455 West 37th Stre "Previously, people were getting one or two months free, which represents a 7 to 14 percent reduction. Those are [now] being phased out, effectively people's rents are going up by that amount, which is substantial."

On top of that, he said, TF Cornerstone and other landlords are now asking for "smallish" rent increases, usually less than $200 per month

Still, the combination of the two often results in a monthly increase of $400 to $600, brokers said. As a result, "there's a lot of sticker shock said Lee Lewis, an associate broker at City Connections.

Landlords bank on the fact that many renters will accept the increases rather than deal with the hassle of moving. Some tenants, however, can't afford the higher rents.

Last year, many renters "were moving into buildings that in previous years they may have been priced out of, because of these incentives landlords were offering," said Daniel Hedaya, the executive vice president at brokerage Platinum Properties. "This enticed renters who saic instead of a walk-up, I can now afford to live in a full-service building.'"

But with the rental market improving faster than expected, he said, “some people are now finding that they may have overextended themse

While landlords carefully scrutinize tenants’ financials to ensure they can afford to pay the rent, many buildings allow tenants to use guarar

“It’s a lot of 20-something young people living in those buildings,” Hatcher said. “They were able to qualify because they used their parents guarantor. But that’s not helping them make the rent every month.”

Recently, Hatcher said, when she has advertised two-bedrooms in Midtown West for around $2,500, she has gotten calls from renters in n doorman buildings paying similar amounts. The callers are not pleased to discover that the apartments she’s listing are walk-ups.

“They’ve gotten accustomed to living in a doorman, elevator building,” Hatcher said. “They’re having to face that fact that to stay at the sar of living, they may have to go back to New Jersey or the outer boroughs.”

Some tenants can afford the higher rent, but are choosing to leave because they can get better deals elsewhere. In particular, since new-construction buildings tend to be located in up-and-coming residential neighborhoods like the Far West Side or the Financial District, many are electing to move to older buildings in longtime residential areas, like the Upper East Side.

“The Uptown market on the East Side has picked up,” Kotler said. “To me, that means there’s a flight to more-established neighborhoods.”

More and more leases will come up for renewal at newly constructed buildings in the next few months, raising questions about how vacancy be affected. Whether or not landlords at these buildings will negotiate with their tenants to keep them depends on a number of factors, incl strength of the market, McMillan said. Right now, he said, activity is stronger than a typical autumn, in part because many law firms and cor companies pushed back the start dates for new employees from spring to fall.

As the traditionally slow winter approaches, however, brokers said landlords will need to negotiate more to keep vacancies down. Already, have been on the rise since July, according to Citi Habitats’ monthly market reports. In July, the vacancy rate was .88 percent, but it crept u percent in August, which is unusual for the busiest rental season of the year, according to Citi Habitats President Gary Malin. Vacancy rate even further in September, to 1.19 percent.

“Depending on how negotiable these landlords are, they may be hit with some vacancies,” Hedaya said. “It’s going to be interesting to see renewal rate will be in the next few months.”

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