

THE REAL DEAL

NEW YORK CITY REAL ESTATE NEWS

Not too proud for rentals

As sales slow, brokers migrate to less-prestigious deals

December 31, 2008

By Julia Dahl

With residential sales slowing, an increasing number of brokers who once worked exclusively in sales are now taking on transactions that in the past they never would have touched: rentals.

According to Daniel Baum, COO of the Real Estate Group New York, it comes down to dollars and sense.

“We are seeing a number of brokers who in the past, in all sincerity, wouldn’t even consider working the rental side of the market — you might even say shunning the rental side of the market — who are today now looking to bring rentals as part of their repertoire in order to make an income,” Baum said on *The Real Deal* Webcast last month. “They’re not making the income they once were, let alone even doing transactions on the sales side of the market.”

Others echoed that sentiment.

“It is absolutely a clear trend, no doubt about it,” said Veronica Raehse, executive vice president and sales manager at Bellmarc Realty.

“Normally, 98 percent of our business is sales,” said Raehse. “But last year, we thought, ‘Things aren’t so hunky dory,’ so we started doing trainings with our sales agents, training them to handle rentals.”

Raehse’s trainings, which typically run about two hours, focus on the basics, what she calls “Rental 101” — including how to show a rental, what income requirements are necessary for potential tenants, and the different forms of leases available in the city. She estimates she’s done the training for 150 to 175 of Bellmarc’s 200 agents.

Bellmarc broker Michael Stansfield attended Raehse’s training even though he had previous rental experience.

“The market has definitely shifted to more rentals right now,” Stansfield said. “The sales side has slowed, so in order to compensate for the loss and keep your customer base, you have to adjust.”

Stansfield said in 2007, rentals made up barely 10 percent of his business. This past year, it quadrupled to 40 percent.

Some high-end brokers like Kirk Henckels, executive vice president at Stribling, are moving into rentals because the owners of properties they represent have decided to wait out the market and rent until they can get the price they want.

For example, Henckels represents the owners of an 11,700-square-foot townhouse at 3 East 94th Street, which, according to the real estate data site StreetEasy, appeared on the market in September for \$29.5 million.

The asking price dropped to \$27.5 million early last month, and a week later, the property — which features a temperature-controlled wine cellar, indoor lap pool and elevator — went on the rental market, asking \$70,000 per month.

"They don't have to sell, so they decided to hang onto the asset rather than drop the asking price," explained Henckels.

Henckels said he knows of several agents who, like him, don't normally handle rentals but are now doing them because their clients require it.

"You can't make as much on commission from a rental transaction," Henckels said. For 3 East 94th, he calculates that his company will receive, at best, 15 percent of the first year's rent, which comes to approximately \$126,000.

If Stribling sells the home, however, the firm will receive 4 percent of the sale price, a commission just over \$1 million.

"Rentals tend to move more quickly," said Henckels, "but there are always issues: Is it furnished? What if the renter wants to bring his two rottweilers? What's the term of the lease?"

Still, Henckels isn't complaining. "I do what I have to to service my clients," he said. That said, Henckels isn't exactly looking to dive back into the rental market.

"There are some people who really like doing rentals — my colleague Beatrice Ducrot is one. I think she's masochistic myself," Henckels joked.

For her part, Ducrot, a senior vice president at Stribling, isn't fazed. "Typically, sales agents don't do rentals because they think it's beneath them," she said. But she added, "I love rentals. They move quickly, and most of the big sales I've done were through clients who I helped rent 20 years ago.

"People have been very loyal," she added.

But while rentals have become a good refuge in some cases, vacancies are up, and asking prices are dropping for Manhattan rentals across the board. According to the Real Estate Group New York's last market report, vacancies are up 17 percent since September, and rental prices are down by nearly 7 percent in some neighborhoods.

Still, brokers say the shifting of gears isn't all that surprising.

"In a market where they are not [doing] so many sales, they are not seeing so many condo buyers. Of course, to maintain their income and their cash flow, they switch and start doing some rental transactions," said Daniel Hedaya, the director of leasing and management at Platinum Properties.

Bellmarc's Stansfield says that the shift means working more long hours, including weekends.

However, he said, the upside is that there is typically less paperwork, and instead of waiting three months for a sale to close, you can often sign a lease and get paid within two weeks. Plus, he said, the hassles of dealing with co-op boards and banks, which are now scrutinizing buyers' finances like never before, are alleviated.

Nonetheless, he said, diversification is key. "You definitely don't want to be known as just a rental agent," he said. "You want to be a full-service broker — someone who can change with the market.

"I'll keep doing rentals as long as I have to. Real estate is all about references, and the connections I make now will grow my business in the future."

So with sales agents back in the rental world, how are brokers and agents weathering the new competition?

"I've already done three rental deals this month and have two more working," said Jimmi Circosta, an agent with Citi Habitats. However, he added: "The rental market is tough now, too. You have to list a little under market just to get attention."

Circosta — who represents both rental and sales properties — has been in real estate for four years and says that in 2007, he did about 60 percent sales, but this past year, that's dropped to just 15 percent.

One high-end broker, who asked not to be identified, recalled taking his rental and sales team to a \$3 million apartment recently to get their thoughts about whether the owner should try to sell or list it as a rental.

"The sales team said, 'The sales market is really tight; they should rent it,'" recalled the broker. "And the rental team said, 'The rental market is very tight; they should sell it.'"

Gary Malin, COO of Citi Habitats, said his agents are prepared to do whatever their clients need.

"It's very difficult to all of a sudden change gears and become a rental agent if you've never been one," he said. "Rentals are very fast paced, and I think it would be a big adjustment. Training will only take you so far — you've got to get out there and do deals."

"I always say, 'Focus on the client; don't focus on the deal,'" continued Malin. "The color of money is green, whether it comes from a rental or a sales deal."