

How Sonder hacked NYC's short-term rental law

Startup with \$135M in funding targets properties zoned for hotel use



By [Konrad Putzier](#) | October 24, 2018 09:00AM

Hospitality company Sonder is opening its first New York location.

The company inked a master lease for 169 units at Metro Loft Management's office-to-apartments conversion 20 Broad Street, where it will occupy the lower eight residential floors. It expects the units to open this quarter.

San Francisco-based Sonder, founded in 2012, [leases apartments and turns them into furnished short-term rentals](#) that compete with hotels. In August the company raised \$85 million in a Series C funding round led by Greenoaks Capital that brought its total funding to \$135 million. It claims to manage around 3,000 units in four countries.

To get around New York's strict limits on commercial short-term rentals, Sonder goes for properties that meet the zoning and building requirements of a hotel. The units "look like residential apartments, but are actually built out as hotel suites," said the company's New York City general manager Arthur Shmulevsky. The units will also get dedicated elevators.

New York's regulations are a big reason it took Sonder so long to open its first location here, said CEO Francis Davidson. "New York real estate is notoriously complicated," he said. Now the company has several deals in the works, including a lease for 72 units in a Long Island City development, according to Shmulevsky.

The company hopes to appeal to landlords by offering them a higher net operating income and the stability of a long-term commercial lease. On the flip side, Nathan Berman's Metro Loft had to "invest quite a bit to make the building suitable" for short-term rentals, Davidson said. According to sources close to the Sonder, Metro Loft is also a venture investor in the company.

Khashy Eyn of Platinum Properties brokered the master-lease transaction.

Metro Loft [bought the leasehold on 20 Broad Street](#) for \$185 million in December 2015 from Vornado Realty Trust, which had run it as an office building. In April 2016, [Metro Loft filed plans](#) to turn the 443,000-square foot, 27-story property into a residential building.