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COMMENTS FROM A LEASING AGENT

Bring Value Back to Leasing

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2016 was the most difficult year that New York real estate has as faced since the end of the last recession. This was truer of Manhattan apartments than perhaps of any other sector of the market. Factors such as layoffs and fewer new hires at the major banks, law firms, and other bread-and-butter New York industries allowed for far less competition in rental applicants. Citywide, residential rents from the first quarter of 2016 continued to drop considerably across the board in Manhattan and Brooklyn.

However, during the same four quarters, the Fed and other similarly credible sources were reporting that the economy was stable, the recovery on target, slow but steady, and job creation was on the rise. So, what made last year especially frustrating for New York landlords was that despite all the upbeat information, their rents were falling and absorption rates were moving at a snail's pace.

It became increasingly difficult to explain to some of the landlords with whom we work just exactly why it was taking so long to rent their apartments or why their tenant bases suddenly included unconventional residents, such as diplomats and artists, albeit high-credit ones. As business owners, our clients understood economic challenges and the positive spin being reported nationwide about the economy. However, the problem was that most of the growth pertained to market sectors not germane to the typical Manhattan tenant in the lower to mid-rental range.

In spite of such obstacles as sluggish growth in white-collar jobs and several residential development projects hitting the Manhattan and Brooklyn markets at the same time, I still managed to keep the 500-plus apartments in the portfolios I represent fully leased. In addition, the rental revenues in most of the properties we represented, far from losing overall net operating income (NOI), achieved modest growth.

Looking back at a lackluster year for rentals, I am deeply proud of what my team and I accomplished. A residential building that achieves the highest possible NOI with the best possible tenants and the lowest possible turnover is attributable to efficient operations, good maintenance and conscientious leasing. As landlord reps, our leasing strategies last year included robust renewal programs commensurate with challenging times. These helped to offset the lower rents on some of the original leases.

Lease renewals reinforce a well-occupied building with the benefit of making it a more congenial place to live. From the landlord's standpoint, renewals save money by eliminating the expense of refitting and painting apartments, required for new tenancies.

Our goal was to encourage lease renewals with good tenants while achieving optimal and fair rent increases. We were more flexible with those tenants who respected the property and paid their rents on time.

As for original leases, some of our landlords were initially reluctant to extend any concessions or to take lower rents. When we initially broached the idea, it was usually countered with responses of "Why?" However, as the months of vacancy continued, landlords came to agree that prices needed to drop and concessions needed to rise. The reality is that any lost revenue from concessions is temporary; a strong tenant base is invaluable.

Flexibility is the cornerstone of any negotiation. We developed a unique strategy that considered the benefits of tenants staying in place with a reasonable increase versus their aggregated relocation costs, such as moving rates, additional security deposits, brokers' fees, etc. Nearly all our renewal tenants accepted rental increases in 2016 that were higher than the rents on original leases for analogous apartments, rather than move and incur a slew of those additional costs. They did this because we considered their numbers and not just the landlord's. In doing so, most tenants found it more cost-effective to remain and pay an increase.

With 2016 behind us, I am happy to report that our phones have been ringing nonstop since the first week of January. The presidential election is over and tenants can now appreciate some degree of stability, which translates to the ability to make real estate decisions. With the economy continuing to recalibrate, banking is on the way back, and other industries are starting to pick up their hiring as well. Also, now that the long-awaited Second Avenue subway is running, the Upper East Side has opened up a whole new market. Not only is the base of Manhattan tenants bound to increase due to fewer layoffs and more new hires but approximately 70 percent of Brooklyn residents work in Manhattan, and the looming L train closure may send them here as well. For example, 1611 and 1613 Second Avenue (between East 83rd and 84th streets) have long been part of our portfolios, but have never been the most popular until recently; these buildings are now in higher demand than ever.

We can't take any of these factors for granted or assume that present market trends will become long-term realities. However, one thing is certain: those landlords who retain me as a leasing agent have now learned that a down market does not have to mean a lower NOI and that the right combination of concessions and renewals can increase revenues for multifamily properties in any economic environment. ~

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