

Real Estate News April 9, 2009, 2:17PM EST

It's Now a Renter's Market

Across the U.S., desperate landlords are coming up with novel ways to attract new tenants and retain old ones

By [Prashant Gopal](#)

Amy Gips loves her one-bedroom apartment in a swank Manhattan building that features a gym, golf simulator, yoga studio, and massage rooms. But she no longer feels she can justify paying \$4,400 a month in rent, especially now that her ex-boyfriend has moved out.

A week ago, just as the 27-year-old associate at a private equity fund was planning her next move, a letter arrived from the property management company. The rent for the 750-square-foot Chelsea apartment with floor-to-ceiling windows overlooking Madison Square Park was reduced \$900, or about 20%. It changed her calculus, though she hasn't given up on the idea of shopping around for something under \$3,000 a month, with one or two months of free rent thrown in.

For years, rising rents in Manhattan were thought to be as inevitable as baseball at Yankee Stadium. But times change, and in New York, landlords are scrambling to hold on to renters who have been hit by the economic downturn.

That means renters who, like Gips, are still in good financial shape now have the whiphand. "I was thinking that the rent was so high that there was no way I'd consider staying," says Gips. "Now that they've offered the reduction on their own, I kind of feel I should do a bit of negotiation."

Avoiding Empty Apartments

During the six months since the financial crisis began in earnest, control of the Manhattan rental market has switched to the tenants, who no longer have to pay broker fees (traditionally about 15%) and who can get up to three free months of rent and even gym memberships thrown in just for signing on the dotted line. The power shift might not be as dramatic in other parts of the country, but rents are getting more affordable from Charlotte to San Francisco. And landlords everywhere are getting more creative (and desperate) to hold down vacancies and prevent turnover.

Landlords figure it's better to take a hit by offering a month or two of free rent and other freebies than to carry empty apartments that aren't generating income.

It's a nationwide phenomenon, according to Victor Calanog, research director at real estate data firm Reis ([REIS](#)). Half of apartment buildings reduced rents in the fourth quarter of last year and the first quarter of this year—the highest percentage since Reis began tracking apartment data in 1980. (By comparison, only 17% of buildings reduced rents in 2007.) And average asking rents fell 0.6%, to \$1,046, in the U.S. in the first quarter, compared with the previous quarter, the largest drop since Reis began collecting quarterly data in 1999. And average effective rents, which include free months and other landlord incentives, fell 1.1%, to \$984.

Effective rents fell in 64 of 79 markets that Reis tracks. Effective rents in San Francisco dropped 2.8% in the first quarter of this year, compared with the previous quarter—the nation's largest quarterly decline. Rents fell 2.6% in New York City (all five boroughs), 1.3% in Charlotte, 2.5% in San Jose, 0.9% in San Antonio, 0.9% in Cleveland, 1.2% in Chicago, and 2.3% on Long Island. Only a few markets, such as Houston and Dallas, showed increases, Calanog says.

Good Time for Good Deals

BusinessWeek teamed up with Reis to come up with the 25 most affordable large metro areas in terms of rents as a portion of local income. Oklahoma City, where people spent just 12% of their income on rent, was the most affordable. Other cheap markets included Indianapolis, Denver, Fort Worth, and Cleveland. The least affordable market was New York, where people spent 57% of their income on rent. But even New York is getting more affordable. About 75% of rental buildings reduced rents in the first quarter, Calanog says.

"Landlords are under increasing pressure as vacancies are moving up," says Calanog. "It's a great time to find deals, even if you're about to renew your lease. Just be prepared to follow through on any credible threats."

Paul Salamanca, chief executive of SkipBrokers.com, an online no-fee rental company for Manhattan apartments, says tenants are negotiating aggressively. "People are saying: 'If you don't help me out, I know another landlord that's willing to,'" Salamanca says.

But landlords around the country aren't reducing rents just because tenants are shopping around. Americans have seen their finances deteriorate amid the ongoing layoffs and pay cuts. Some landlords have dropped rents on a temporary basis to allow tenants time to find a new job.

For People Who Lose Their Jobs

About three weeks ago, Cleveland's Goldberg Cos., which owns 9,000 units in Ohio, North Carolina, Florida, and Texas, started offering "layoff-proof" leases, which

guarantee tenants up to two months of free rent if they provide proof they were laid off. If the tenant is unable to find another job after the two months, they can break the lease with no penalty.

The company hopes to attract tenants who are living with parents or sharing apartments with multiple tenants.

"What's keeping people from renting is fear," says Eric Bell, a senior vice-president at Goldberg. "We wanted to give people a cushion or a safety net, so they know they'll have some time to get back on their feet."

Anger Among Other Tenants?

But not all landlords are giving renters financial incentives. Mary Gwyn, chief innovator for Apartment Dynamics, a property management training and consulting firm that also manages apartment communities in North Carolina, says she recommends against that strategy. She says allowing new tenants to live for free for a month or two damages profits and could create tension with existing tenants who aren't getting the same deal.

Landlords can prevent turnover by creating a better sense of community in the development, she says. They might cook Thanksgiving dinner for residents who don't have family nearby, send out cards to residents who are celebrating birthdays or who have suffered a death in the family, and organize pizza parties and useful workshops on résumé writing and job searches, she explains.

"People want to live in a neighborhood where they feel that someone knows their name and cares about their circumstances," Gwyn says.

But Robert Scaglione, senior managing director of [Rose Associates](#), one of New York City's largest development, property management, and marketing firms, says tenants in this job climate are sensitive to rental rates. He said the company, which manages Chelsea Landmark, where Gips lives, has increased its occupancy level to 98% by making swift changes to rents to reflect the market.

Where Renters Are Going

The pool of Manhattan renters has shrunk because people are doubling and tripling up, moving in with parents, or leaving the city for less-expensive digs or for new jobs elsewhere. Many parents who were subsidizing their twentysomething child's apartment can no longer afford to do so. At the same time, renters from Brooklyn, Queens, and northern New Jersey, who never thought they could afford Manhattan, are coming in to take advantage of newly reduced rents, Scaglione says.

"Normally, when the sales market starts to soften or go down, it's very good for the rental market," Scaglione said. "This time the for-sale and rental markets have gone down simultaneously."

The good news for landlords is that fewer people are moving out of apartments to buy condos or single-family homes, since those markets have also slowed in the Northeast.

Trading Up

Sofia Kim, vice-president for research at Steeteasy.com, a popular New York real estate listings site, says Manhattan rents are falling fast. Renewing tenants aren't asking just for reductions; they're asking to be moved to larger apartments for the same rents, she says.

StreetEasy.com says the median effective rent for one-bedroom apartments in Manhattan fell nearly 10% in the first quarter, compared with the same period last year. The rent for two-bedroom apartments dropped 15% in the Upper East Side and 28% in the hard-hit financial district, the company says.

Gips expects New York rents to drop more. But she doesn't want them to fall too far. "I hope next year there isn't another big [rent] reduction," Gips says. "That would mean the economy is in an awful place."

Metro	Share of income used for rent:	Average rent:	Median household income:	Population:
1. Oklahoma City	12.3 %	543	52917	1.21 m
2. Columbus, Ohio	14.5 %	677	56128	1.77 m
3. Indianapolis	15.1 %	675	53481	1.72 m
4. Kansas City, Mo.-Kan.	15.2 %	701	55411	2.01 m
5. Fort Worth-Arlington, Texas	15.6 %	718	55217	2.10 m
6. Cincinnati-Middletown, Ohio-Ky.-Ind.	15.7 %	710	54408	2.13 m
7. Denver-Aurora, Colo.	16 %	887	66545	2.53 m
8. Greenville-Spartanburg-Anderson, S.C.	16.5 %	630	45842	1.09 m
9. Houston-Baytown-Sugar Land, Texas	16.8 %	769	54848	5.81 m
10. Dallas-Plano-Irving, Texas	17 %	814	57467	4.24 m

Source:

http://www.businessweek.com/print/lifestyle/content/apr2009/bw2009049_117648.htm

Top 10 metro areas with low rents

1. Oklahoma City

Share of income used for rent: 12.3%

Average rent: \$543

Median household income: \$52,917

Population: 1.21 million

The Oklahoma City metro area, which includes the state capital, has the nation's most affordable rents. The metro area, home to Devon Energy and Chesapeake Energy, has a relatively strong economy, thanks to the oil and natural gas industries. Oklahoma City's asking rents for apartments jumped 3.8% in the fourth quarter, compared with a year earlier. The vacancy rate was 8.6% at the end of last year.

2. Columbus, Ohio

Share of income used for rent: 14.5%

Average rent: \$677

Median household income: \$56,128

Population: 1.77 million

Rents remain cheap in the state capital. Apartment landlords are increasingly competing with home sellers who are struggling to find buyers and are instead looking for tenants. Asking rents in Columbus — home of Ohio State University, the nation's largest college campus — jumped 2% in the fourth quarter, compared with a year earlier.

3. Indianapolis

Share of income used for rent: 15.1%

Average rent: \$675

Median household income: \$53,481

Population: 1.72 million

The economic picture has dimmed in Indianapolis, where the unemployment rate has risen to 8.2%. The state capital, famous for the Indianapolis 500, is home to major universities, including Indiana University, Purdue University Indianapolis and Butler University, which provide a boost to the rental market. The metro area's asking rents for apartments jumped 1.8% in the fourth quarter, compared with a year earlier.

4. Kansas City, Mo.-Kan.

Share of income used for rent: 15.2%

Average rent: \$701

Median household income: \$55,411

Population: 2.01 million

Kansas City, the largest city in Missouri, is home to such large corporations as H&R Block, Russell Stover, Hallmark Cards and AMC Theatres. It has seen its unemployment rate climb to 8.4% as once-strong industries, including construction, adapt to the new economic reality. Budget problems were so severe this year that the community known as the "City of Fountains" considered allowing many of them to run dry. But rents are low relative to average household income. The city's asking rents for apartments increased 1.9% in the fourth quarter, compared with a year earlier.

5. Fort Worth-Arlington, Texas

Share of income used for rent: 15.6%

Average rent: \$718

Median household income: \$55,217

Population: 2.10 million

Fort Worth, nicknamed "Cowtown," attracts tourists with its rodeos and daily cattle drives. The city, 30 minutes west of Dallas, also has a strong economy, which added jobs in February. The metro area's asking rents for apartments jumped 1.9% in the fourth quarter, compared with a year earlier. The vacancy rate was 9.9% at the end of last year.

6. Cincinnati-Middletown, Ohio-Ky.-Ind.

Share of income used for rent: **15.7%**

Average rent: **\$710**

Median household income: **\$54,408**

Population: **2.13 million**

Cincinnati, on the shores of the Ohio River, is home to American Financial Corp., Duke Energy, Chiquita Brands International and Procter & Gamble and is a hub for the production of machine tools. The area's asking rents for apartments climbed 2.6% in the fourth quarter, compared with a year earlier.

7. Denver-Aurora, Colo.

Share of income used for rent: 16.0%

Average rent: \$887

Median household income: \$66,545

Population: 2.53 million

Vacancies are rising in the Denver metro area as foreclosed homes and other empty houses are rented to tenants, adding to the supply of available rentals. Meanwhile, the unemployment rate in the Denver-Aurora metro area in February rose to 7.9%. The largest employers in the Mile-High City, located near the foot of the Rocky Mountains, include Qwest Communications, HealthOne, Lockheed Martin, the University of Denver and United Airlines. The asking rents for apartments jumped 2.3% in the fourth quarter, compared with a year earlier.

8. Greenville-Spartanburg-Anderson, S.C.

Share of income used for rent: 16.5%

Average rent: \$630

Median household income: \$45,842

Population: 1.09 million

Greenville, about 100 miles west of Charlotte and 150 miles northeast of Atlanta, is located in the foothills of the Blue Ridge Mountains. It's the home of Michelin North America and the only BMW manufacturing plant in the U.S. Greenville-Spartanburg-Anderson asking rents for apartments jumped 2.1% in the fourth quarter, compared with a year earlier.

9. Houston-Baytown-Sugar Land, Texas

Share of income used for rent: 16.8%

Average rent: \$769

Median household income: \$54,848

Population: 5.81 million

Houston's thriving metro area has one of the country's strongest economies, but with consumer spending and energy prices falling, the job market is slowing. Many of the world's largest oil companies have headquarters here. It is home to the U.S. headquarters of Shell Oil, BP and ConocoPhillips. Houston also boasts many professional teams, including the Houston Astros and the Houston Rockets. Asking rents for apartments in the area jumped 4.2% in the fourth quarter, compared with a year earlier.

10. Dallas-Plano-Irving, Texas

Share of income used for rent: 17.0%

Average rent: \$814

Median household income: \$57,467

Population: 4.24 million

The sprawling Dallas area has a major international airport, professional sports teams and large corporations. It is home to Exxon Mobile, JCPenney and TXU Energy. The unemployment rate in the Dallas-Plano-Irving area reached 7% in February. The metro area's asking rents for apartments jumped 3.2% in the fourth quarter, compared with a year earlier.

Source:

http://www.businessweek.com/print/lifestyle/content/apr2009/bw2009049_117648.htm