



Year End 2009 Manhattan Rental Report

In the fourth quarter of 2009, the Manhattan rental market saw minimal changes in rental prices. Compared to the third quarter of 2009, the fourth quarter's average rent went up 0.2% to \$3,060. This is comprised of attended units (which increased 0.9% to \$3,454) and unattended units (which decreased 3.4% to \$2,369).

Within the overall market, as indicated in the attached year-end report, neighborhoods with higher rental prices have shown stronger advances. The Upper East Side between Lexington and Fifth Avenues, Chelsea, and the Upper West Side saw the largest rent increases at 3% to 4% gains. The Upper East Side shows the greatest continued deterioration, losing 3%, but the loss is largely attributable to the unattended sector loss, which was a stunning 8%. That result is a key indicator of another important market trend.

The average attended property increased rent 1% while unattended lost 3%. This is counterintuitive. As rents fall, people choose smaller and less amenity-rich properties, resulting in a market that favors less-expensive, unattended properties. However, there is a new twist in the market.

The explosion of luxury rentals in Brooklyn offers an alternative living option at a comparable price to unattended properties in Manhattan. As the data indicates, rents continued to fall steeply in the studio and one bedroom sectors of Manhattan's unattended property market, whereas larger-sized attended units are holding up well. This is consistent with the idea that about 85% of the mix in luxury buildings is comprised of studios and one bedroom units and that renters in larger unattended properties, paying higher rents, have a stronger preference for their Manhattan location. Average rents in luxury Brooklyn rentals for studio and one bedroom units are approximately \$1,900 and \$2,500 respectively, while average rents for unattended studio and one bedroom units in Manhattan are \$1,702 and \$2,302 respectively. As the luxury rental markets in Brooklyn and Long Island City continue to grow, spawning new residential amenities and gaining acceptance as a Manhattan alternative, these areas will continue to exert pressure on the Manhattan rental market, not only in the unattended sector but in less pricey areas generally.

With job losses still draining demand, albeit hopefully ending soon, and with Brooklyn's new luxury market sapping Manhattan strength, there is little to look forward to in terms of increased demand to boost Manhattan rental values. In late 2008 and the early part of 2009, many Owners did not adjust renewal rents and there was churn in the market providing demand to some Owners and net losses to others. Today, most Owners have accepted the reality of adjusting renewal rents to the market and the lopsided demand this created in an otherwise zero sum game has been eliminated.

Also, in the for sale market in Manhattan, about fifty percent of reasonably robust demand is for homes under one million dollars. These buyers are potential renters whose demand is also lost to the rental market.

Midtown West shows an increase of 2% in rents, but this may not be what it seems. There are a host of new rental buildings in their first rent up in the area offering substantial free rent incentives to optimize nominal rents. In stabilized buildings rents have not increased.

The supply side shows some signs of hope. Distressed properties are beginning to trade in Manhattan and Brooklyn and, for the most part, these are being repositioned as properties for sale. Still, there are about one hundred fifty buildings or sites listed as distressed by the DOB. Assuming an average of thirty units per building, there is substantial inventory yet to be accounted for. Some portion of these, in less desirable areas, will come into the rental market over the next few years, but with little new construction, the impact should be minimal.

A handwritten signature in black ink that reads "Nancy Packes". The signature is written in a cursive, flowing style.

Nancy Packes
February 15, 2010