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Where are the rentals?

A look at the recovering, but still-meager, pipeline of new apartments for lease
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From left: Joseph Moinian, Gotham West, Atelier II and Howard Swarzman

After the 2008 financial crisis, rattled New Yorkers pulled back on home-buying and started writing rent checks in force, while developers leased out condo units rather than selling them. Five years later, the rental market in the city is going strong, but for a different set of reasons.

The pipeline of new rental units has massively shrunk in the past few years, part of the inventory shortage set in motion when new development across the city stalled during the recession.

Since the late 1960s, Manhattan has seen an average of roughly 12,000 new development rental units hit the market each year, said Jesse Keenan, the research director at Columbia University's Center for Urban Real Estate. But according to data from the brokerage Citi Habitats, only 15,723 new development rentals units came on the market from 2008 to 2012.

The pipeline of new rentals is now beginning to recover from the recession. There are some 23,000 new development rental units slated to come on the market in Manhattan by the end of 2017, according to Citi Habitats. While that's an improvement from the recession years, it's still "pretty low in terms of historical trends," Keenan said.

And the supply of new rentals is not expected to swell anytime soon. With home prices sky-high and banks more open to construction lending, developers have started building condos again after several years of preferring to build rentals. And with land now so costly, many developers have determined that luxury condos are the best way to turn a profit.

Because condo prices have "shot up so quickly," said Andrew Barrocas, CEO of residential brokerage MNS, "there are very few rental projects being planned."

As a result, the few rental projects hitting the market now are seeing a frenzy of demand, with some generating waiting lists of up to 1,000 potential tenants, industry insiders said. And while most new rental developments on the market now are relatively small, many of the projects in the pipeline are massive, though the units themselves are smaller than in the past. Perhaps not surprisingly given the shortage of supply, rents for these new projects are on the rise.

To get a handle on the construction of rentals in the city, *The Real Deal* compiled a list of the new rental developments in Manhattan and prime Brooklyn that have come on the market in the past year, and those currently in the pipeline.

The waiting game

In the last year, some 22 large new-construction rental buildings (those with 15 or more units) have hit the market in Manhattan and prime Brooklyn, according to data from real estate database CityRealty and permits filed with the Department of Buildings. That figure — which includes 10 projects in Manhattan and 12 in Brooklyn — is significantly lower than in most years, sources said.

"If you really look, there's not that many rental buildings in the city right now," said Andrew Gerringer, the managing director of new business development at the Marketing Directors.

He noted that large new rental projects that started leasing before or during the recession, such as the Beatrice at 105 West 29th Street and the Continental at 25 Third Avenue, have now been filled up.

That's contributed to new rental apartments coming on the market now getting snapped up at a never-before-seen pace.

Until recently, leasing teams expected to collect a few hundred names of interested tenants before launching a new rental building, Gerringer said, although only around 20 percent of those typically actually sign a lease. But at LCOR's 250 North 10th Street in Williamsburg, a 232-unit building where the Marketing Directors is handling leasing, he said he expects the waiting list to grow to nearly 1,000 potential tenants when the building hits the market in a few months.

David Maundrell, founder of the Brooklyn-based brokerage Aptsandlofts.com, said the 229-unit rental 50 North 5th Street had a waiting list of around 1,000 names when it started leasing in August— something he said he's never seen in his 11 years at the helm of the firm.

There's not much relief in sight.

TRD identified 36 new rental projects planned to hit the market in Manhattan in the next few years, and 30 slated for Brooklyn. That relatively meager pipeline is a result of both rising land costs and shifting trends in construction financing, sources said. Immediately after the financial crisis, lenders were more willing to finance rentals than condos. But they've recently started warming up to condo lending again as market conditions have improved — new-construction condos now sell for upward of $2,200 per square foot, compared to $1,800 in 2006, according to Nancy Packes, founder of the eponymous marketing firm. That's helped spur the construction of more for-sale residential units.

Some major developers who have long focused on rentals are now turning their attention to condos.

Sources cited Glenwood as a case in point. The Manhattan-based rental developer — responsible for buildings such as the 320-unit Regent at 45 West 60th Street, the 151-unit Tribeca Bridge Tower at 450 North End Avenue, and the 281-unit Stratford at 1385 York Avenue — is now reportedly building its first-ever condo, a 19-story project called 6 East 86. Glenwood, which is run by Howard and Steven Swarzman, the grandsons of founder Leonard Litwin, did not respond to requests for comment.

"There's a point where it no longer becomes feasible for a developer to do rental housing," said Neil Helman, an investment sales broker at the commercial firm Avison Young. "Rents top out at a certain number, unlike condominium pricing, which just continues to escalate."

And if condo prices continue to increase, the leasing pipeline could shrink even more as projects slated to be rentals switch gears. That's the reverse of what happened during the credit crisis, when failed condo projects started leasing out their units because buyers were scarce.

"What I can see today," Gerringer said, "is a building that was planned as rentals, because that's was where the developer could get the financing at the time, now going condo because the condo market is so strong."

Supersized rentals

Many of the rental developments that are wending their way through the pipeline will, however, have many more units than the projects on the market now.

According to *TRD*'s research, the 351-unit 101 Bedford in Williamsburg has the most units of any rental project to launch in the past year. By contrast, the Domino Sugar redevelopment, developed by David Walentas' Two Trees, which is expected to break ground next year, is slated to have a stunning 2,284 rentals (although 660 of them will be set aside as affordable). And the Gotham Organization's massive Gotham West project on the Far West Side is slated to have 700 market-rate rental apartments, plus 540 affordable units.

Other new large rental projects in the pipeline include the Moinian Group's under-construction Atelier II at 605 West 42nd Street. Due to be completed in 2015, the 61-story project is set to include 1,669 rentals, according to the most recent DOB filings. AvalonBay Communities' Avalon Willoughby at 88 Willoughby Street in Downtown Brooklyn, meanwhile, will reportedly have 861 units.

"These are all the mega-projects that weren't going to happen during the recession," Maundrell said.

But there's more to it than that, sources said. Packes said land costs these days are so high that the only way for developers to turn a profit is by outfitting their projects with condo-like amenities in order to charge high prices, and then packing in as many units as possible.

"The frontier of competition has moved to massive amenities packages that need to be amortized over many units," Packes said.

New-construction rentals in Manhattan must now charge between $70 and $80 per square foot in order to turn a profit, sources said. That's up from around $60 a square foot during the last real estate boom in the mid-2000s. And Brooklyn projects now charge between $55 and $65 per square foot.

To make a Manhattan rental work, "you would have to build in a location now that will yield an $80-per-square-foot rent," said developer Ben Shaoul of Magnum Real Estate Group. Shaoul just finished the lease-up of Williamsburg Social, a 72-unit project at 250 Bedford Avenue, where prices started at $2,600 for a 436-square-foot studio. The building has over 7,500 square feet of amenity space, including a landscaped courtyard, roof deck with wireless internet access, residents' lounge and bike storage.

Fifty North 5th Street in Williamsburg, which began leasing in September, has over 15,000 square feet of amenity space, including two lounges, an indoor basketball court and a bocce court. Monthly rents at the building start at $2,600 for a studio and climb to $7,000 for a two-bedroom penthouse, according to Maundrell.

Because developers are squeezing in as many units as they can, the units themselves are often smaller, with "narrower room dimensions," Packes noted. In Manhattan, for example, "the one-bedroom used to be a creature of 650 square feet to 850 square feet," Packes said. "That unit now is being built at 650 square feet."

Many of the city's supersized rental projects are in Brooklyn, where large parcels of land are more abundant than in Manhattan. As a result, Manhattan-based developers have recently started pursuing projects there. (Land prices in Brooklyn are also on the rise, but as of last year were still about 51 percent lower than in Manhattan.) For example, Manhattan-based Gotham is currently developing a 600-unit rental near Fort Greene's Brooklyn Academy of Music, while the Chetrit Group is developing a rental/hotel project at 500 Metropolitan Avenue in Greenpoint.

So far, at least, high rents and waiting lists don't seem to be deterring tenants. At 50 North 5th Street, for example, 30 of the project's 229 units were leased in the first week and a half of marketing, Maundrell said.

Renters have "an appetite for luxurious rentals, condo-like amenities, condo-like finishes, condo-like buildings," Barrocas said. "You'll see people paying for it."