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Brooklyn Landlords Slash Rents to Attract Tenants

The median rent across the borough has declined by more than 9% since the peak in 2014, forcing landlords to offer more concessions



A building binge in recent years has swelled supplies of new apartments for rent. 333 Schermerhorn and 300 Ashland are two new developments in the area. PHOTO: BESS ADLER FOR THE WALL STREET JOURNAL

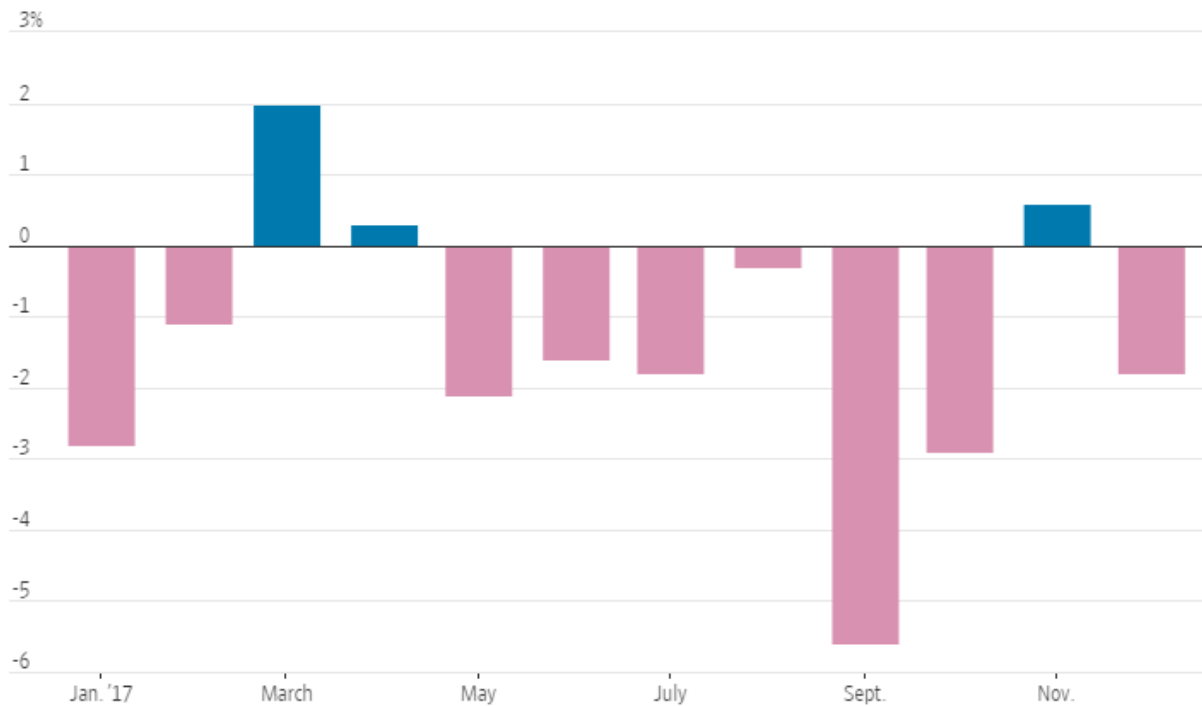
Brooklyn's apartment market is cooling faster than a cup of green matcha on a winter morning.

A building binge in recent years has swelled supplies of new apartments for rent, forcing landlords to offer steep concessions such as months of free rent to convince potential tenants to sign leases.

That, in turn, is hurting owners of older, smaller buildings, where inventory is lingering and rents are declining outright.

Sliding Rents

Brooklyn's monthly median rent after concessions, change from a year earlier



Source: Miller Samuel

The median rent across the borough has declined by more than 9% since the peak in 2014, according to a market report by Douglas Elliman Real Estate. Another report, by brokerage MNS, shows average rents, which are more influenced by the higher rents in new residential towers with amenities, have remained essentially flat over the same three-year period.

“There is definitely weakness; you are seeing a lot of flexibility by everyone,” said Paul Johansen, a broker at CORE who works with Brooklyn renters and landlords. “The ones down the chain, the ones that don’t have the amenities, are hurting the most.”

The latest report by Douglas Elliman put the median market rent across Brooklyn at \$2,613 a month, after accounting for owner-concessions such as one or more months of free rent. That was down from the peak median rent of \$2,936 a month in November 2014, according to the Elliman data, prepared by appraiser Jonathan Miller of Miller Samuel Inc.

Rents declined 2% in December 2017 compared with the same month a year earlier, after taking into account concessions, according to the report. The share of listings with concessions rose to the highest levels since the report began tracking such data in 2010. Some 46% of listings had concessions, up from about 14% in December 2016.

In all, roughly 27,000 new rental units in Brooklyn have hit the market since 2008 in about 680 buildings, according to Nancy Packes Data Services. Roughly 5,700 units opened last year alone.

Nancy Packes forecasts as many as 5,000 additional units in the borough in 2018 and as many as 9,000 in 2019.

Mr. Miller said he views the market as a layer cake, with the most elaborate new buildings at the top putting pressure on lower-priced segments of the market. He said he doesn't expect a sharp correction overnight, but rather a continued grinding pressure on prices.

"This is the status quo over the next year or two," he said. "Sliding prices, excess supply skewed to the higher end."

Rory Bolger, a broker at Citi Habitats, said prices were coming down, but large landlords were coping with this through concessions "straight across the board, something you didn't see consistently" before.

Some building owners are offering brokers oversize commissions of 15%, or nearly two months of rent, to help bring in potential renters, he said. Some renters are even asking for free parking.

"Concessions are through the roof," said Mr. Bolger.

In downtown Brooklyn, where more than 6,000 apartments were added since 2015, many in high rise towers with views of the Manhattan skyline, developers said they have been renting out their buildings at a steady pace.



Rowhouses on S. Elliott Street in Fort Greene, Brooklyn. PHOTO: BESS ADLER FOR THE WALL STREET JOURNAL

The initial lease-up is nearly complete at the Ashland, a 53-story building in Fort Greene on the edge of downtown Brooklyn that opened in 2016, said Matthew Berenson, a vice president at Gotham Organization, which built the tower.

At 300 Ashland, another new building opposite the Brooklyn Academy of Music, the landlord cut prices in December and January between 2% and 5%, respectively, on a number of apartments, according to listings on Streeteasy.com.

A two-bedroom listing on the 25th floor showed a 2% cut in early January. The listing noted the new asking rent of \$4,750 a month was calculated after taking into account the value of concessions. The contract rent was \$5,700 a month.

A spokeswoman for the developer, Two Trees Management, said it wasn't seeing a slowdown in leasing in Brooklyn. She said 95% of the apartments in the 33-story building were now leased, and asking rents were trimmed on a few remaining two-bedroom and higher floor apartments.

But after a long boom in demand for trendy Brooklyn rentals, leases are shifting to tenants' favor.

"Renters are taking longer to come to a decision," said Mr. Bolger. "They realize there is some churn out there, and they are shopping for the best deals."