



**THE HABITATS**<sup>SM</sup>  
NEW YORK

A Semi-Annual Report  
3rd Edition

Update 3

# The Black and White Report

A Comprehensive Analysis  
of the Manhattan Residential  
Rental and Sales Market from  
May-October 2003

## MISSION STATEMENT

*The Black and White Report* provides the most comprehensive analysis of the current state of Manhattan's residential marketplace. The data analyzed by *The Black and White Report* spans two distinct six-month periods in residential rentals representing *peak* and *off-peak* seasons, and a full year for residential sales. The information that follows is drawn from the period of May through October 2003 which is considered the *peak* season. We break this hard rental and sales information down into smaller, more size-specific categories, to give you a complete understanding of Manhattan's wide-ranging market.

The statistical integrity of *The Black and White Report* is unparalleled. Compiled by the managers and staff of Citi Habitats' eighteen citywide offices, and incorporating a sampling of more than ten thousand rental and sales agreements from over eleven hundred properties, *The Black and White Report* identifies the actual, undeniable trends in today's real estate market.

## Glossary of Terms

**Analysis:** This language directly reflects the current market findings portrayed by the numbers that appear in the graphs and tables.

**Trend:** This is a comparison between current and previous data, which includes our last Black and White Report (November 2002 to April 2003) as well as shorter and longer term patterns in the real estate market.

**Perspective:** This commentary is drawn from the highest level of experts within the Citi Habitats network, including managers, directors and officers. Their interpretation of statistical information and opinions regarding the real estate climate is based on in-depth knowledge gained from hands-on experience and interactions with clients and other industry professionals.



# The Black and White Report

3rd Edition

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## LETTER OF INTRODUCTION



Andrew  
Heiberger

On behalf of Citi Habitats, Inc. I am pleased to offer you *The Black and White Report*, our comprehensive look at the economic trends of Manhattan's residential real estate market. This unparalleled semi-annual report tracks, analyzes, and interprets real data based on thousands of Citi Habitats rental and sales transactions over the course of a year.

From identifying the price per square foot of today's most popular rental or the neighborhood with the least vacancies, to finding the area with the highest volume of new sales or determining the unit mix of a new development—every reader will be empowered to make informed decisions using the resources contained in this report.

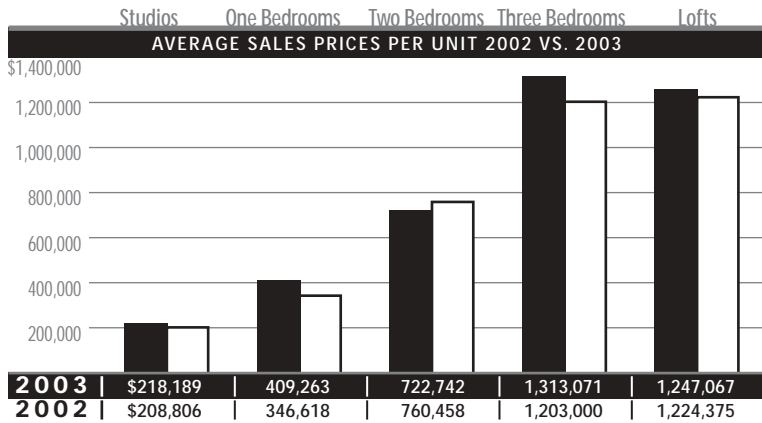
It amazes me how many owners, developers and architects are purchasing and designing product these days without accurately assessing the existing marketplace and its current conditions based on real market data. By thoroughly analyzing this data, the property owner, developer and architect can really maximize their investment in rental or sales properties.

Citi Habitats is proud to offer this invaluable information to our most valued friends, partners, colleagues, and associates. **Upcoming editions of this report will only be made available electronically. For this reason, it is critical that you take a moment to register on the Market Watch section of our website, [www.citi-habitats.com](http://www.citi-habitats.com), to receive future *Black and White Reports*.**

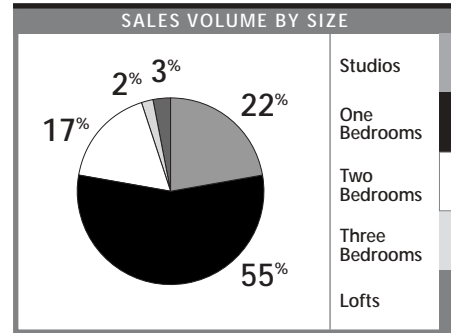
Whether you're a co-op or condo owner, property manager, lender, investor, banker, developer, real estate broker, or simply have an interest in Manhattan real estate, you will find *The Black and White Report* to be a useful tool and the only one of its kind. We've utilized our best efforts to make this report as factual as possible in order to peel away the façade of the real estate market, revealing the true facts and trends in black and white.

Andrew Heiberger  
President and CEO,  
Citi Habitats, Inc.

# Sales analysis



Source: All Citi Habitats' sales transactions from January 2002 through December 2003. Includes condos, co-ops and townhomes in doorman and non-doorman buildings.



Source: All Citi Habitats' sales transactions from January 2002 through December 2003. Includes condos, co-ops and townhomes in doorman and non-doorman buildings.

## SALES PRICES PER UNIT TYPE

**Analysis** *Three bedrooms overtook lofts in 2003 as the most expensive size apartments. One bedroom apartments showed the largest percentage increase in prices.*

**Trend** One bedroom apartments were flying off the shelves in 2003 driving overall prices up 18% higher than 2002. Prices were up for all size apartments other than two bedrooms, which showed a slight decrease.

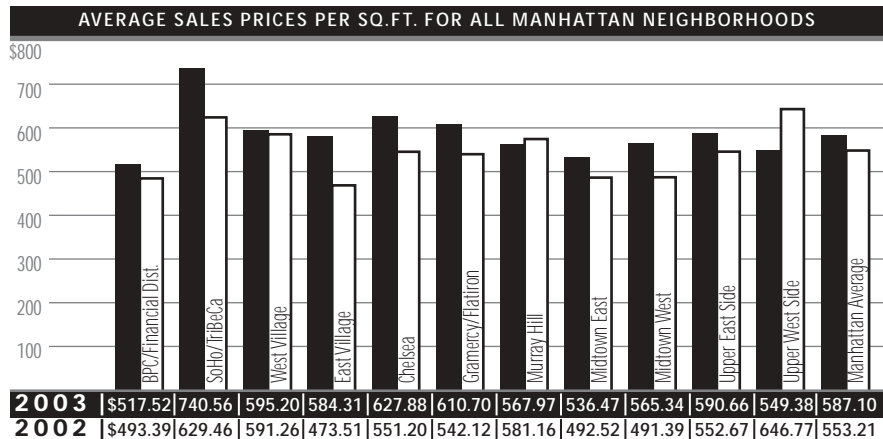
**Perspective** Historically low interest rates drove first time buyers into the market in record numbers in 2003, creating a rush on smaller apartments. The high demand drove studio sales to all time highs and increased the prices of one bedroom apartments significantly.

## SALES PRICES PER SQUARE FOOT BY NEIGHBORHOOD

**Analysis** *The price per square foot for all neighborhoods increased in 2003 with the exception of the Upper West Side and Murray Hill. SoHo/TriBeCa continues to demand the highest prices per square foot at \$740.56. SoHo/TriBeCa, East Village and Midtown West experienced the largest price gains from 2002 to 2003.*

**Trend** The shortage of loft product downtown has driven prices up in all the trendy neighborhoods. Demand continues to be high and the shortage of product in these areas is acute. Developers continue to open small to mid-size new construction luxury loft buildings which have been selling out at an amazing pace.

**Perspective** Downtown continues to be a "Hot Spot" of choice for buyers. There is simply not enough luxury housing for sale to keep pace with the ever growing demand. It's not going to change in the foreseeable future because supply cannot keep up with demand.



Source: All Citi Habitats' sales transactions from January 2002 through December 2003. Includes condos, co-ops and townhomes in doorman and non-doorman buildings.

# Trend in residential sales

## SALES PRICES PER SQUARE FOOT FOR ALL UNIT TYPES

**Analysis** Prices per square foot as a whole have increased in 2003 as compared to 2002. Overall there was a 6.17% increase in price per square foot in Manhattan.

**Trend** Home values continued to appreciate at an excellent pace despite economic concerns. Interest rates at near record lows all year fueled demand for apartments of all sizes and this trend will continue next year unless the economic outlook changes drastically.

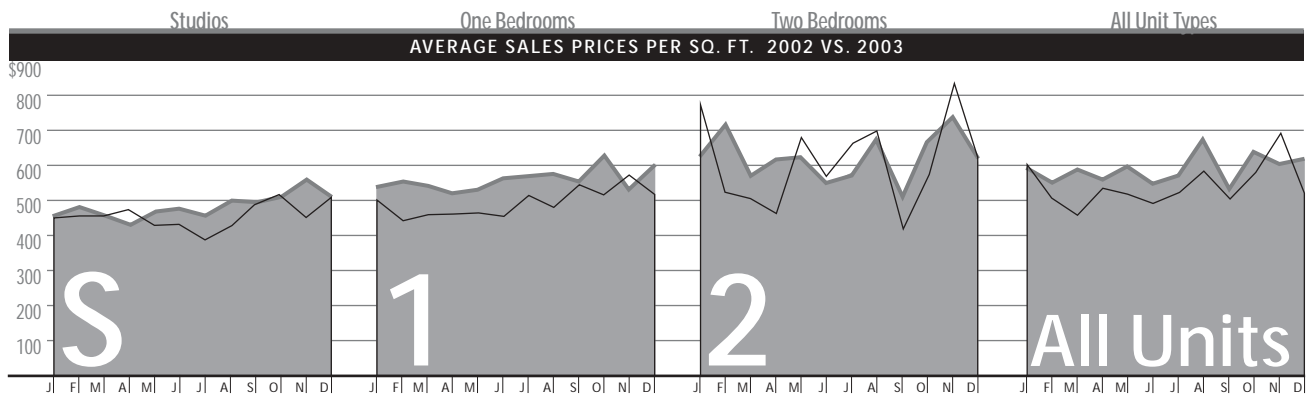
**Perspective** We have experienced strong demand for several years in this healthy Manhattan market. There is now a very real shortage of property for sale. Residential brokers have been quoted in the press complaining about the dearth of listings. With no end in sight for low interest rates, demand will remain steady. Combined with a shortage of supply, the only possible projection is further appreciation for all Manhattan properties.

## SALES PRICES PER SQUARE FOOT PER UNIT TYPE

**Analysis** The average sales price per square foot for studios is \$481.94 and for one bedrooms is \$566.28. Both sizes experienced an increase, with one bedroom homes showing the most change in price per square foot, up 15%.

**Trend** First time buyers entered the market in droves this year. The low cost of borrowing money made the choice between buying and renting a non-issue and thousands chose to take advantage of the amazingly low interest rates. As long as rates continue to stay this low, the first time buyer will again rule in 2004 and small apartments will continue to appreciate and fly off the shelves.

**Perspective** At 6% interest, a buyer can borrow \$300,000 for a monthly payment of only \$1,800 per month. Combine this with the tax benefits of owning your own home, and is it any wonder that anyone with the available down payment made the choice to buy? A minor increase in interest rates to 7.5% would make the cost of the same loan \$2,100 a month. The first time buyers struck while they had the opportunity and will continue to do so as long as interest rates remain low.



	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPT	OCT	NOV	DEC	AVERAGE
<b>Studios</b>													
2003	\$439.53	470.70	452.45	426.61	465.50	472.50	455.40	499.00	493.95	504.91	554.24	518.90	481.94
2002	\$451.72	451.72	451.72	474.21	425.29	429.49	383.70	427.14	487.50	515.00	450.18	507.19	450.58
<b>One Bedrooms</b>													
2003	\$539.80	553.79	545.75	521.89	538.13	566.89	574.42	585.40	554.29	629.12	540.33	613.63	566.28
2002	\$500.96	439.63	458.62	458.20	462.55	453.54	512.50	477.56	543.88	513.52	571.65	515.10	490.84
<b>Two Bedrooms</b>													
2003	\$627.45	713.57	572.94	619.79	625.63	556.21	582.47	675.90	519.28	668.04	737.29	610.06	620.57
2002	\$785.21	525.00	507.00	463.00	685.54	569.44	664.29	698.93	419.67	571.78	836.34	620.83	650.12

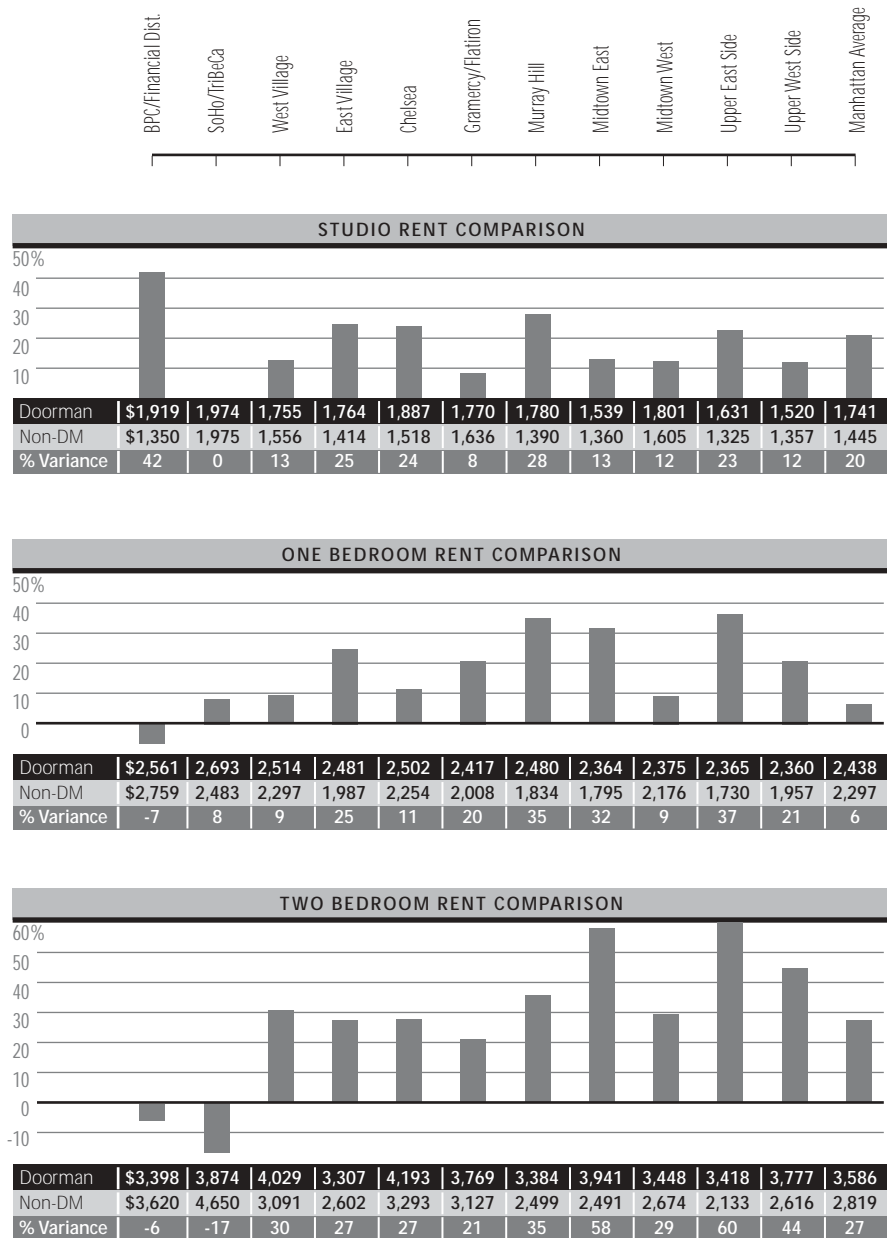
Source: All Citi Habitats' sales transactions from January 2002 through December 2003. Includes condos, co-ops and townhomes in doorman and non-doorman buildings.

# Doorman

## vs. non-doorman rental comparison

**Analysis** Some notable findings are that the least overall variance in average price per square foot between doorman and non-doorman buildings occurs in one bedrooms, whereas the greatest overall variance is found in two bedrooms. The greatest overall variance in price per square foot between doorman and non-doorman buildings is on the Upper East Side.

**Perspective** This study indicates that from a landlord standpoint, there is an advantage to owning luxury buildings with doormen because they command higher rents. Tenants are willing to pay for the security and convenience of having a doorman in the building.



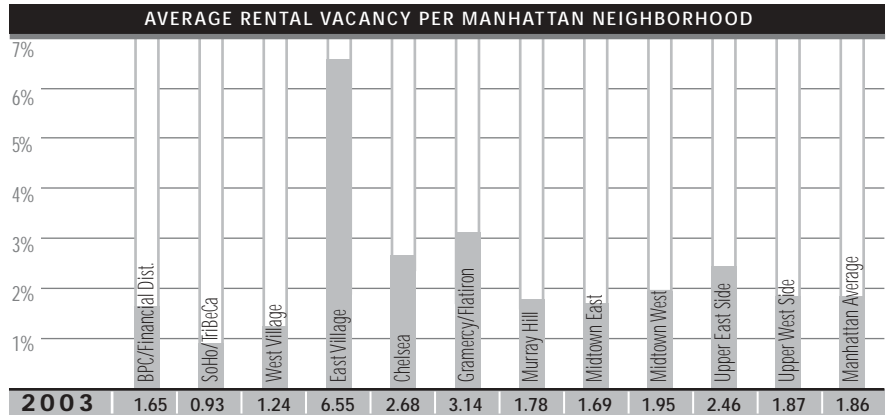
Source: All Citi Habitats' transactions from May through October 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

# Rental vacancy rates

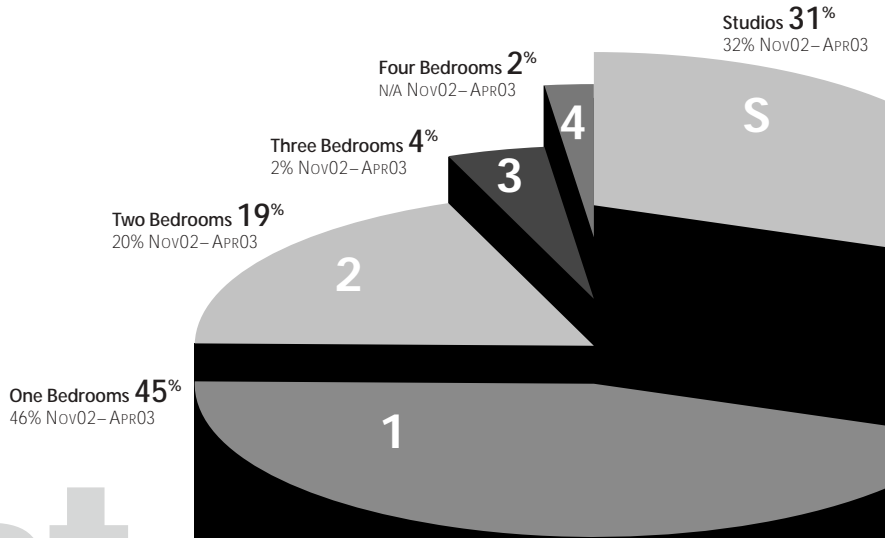
**Analysis** *The Manhattan average vacancy rate is currently at 1.86%.*

**Trend** Vacancy rates have come down since our last report, when the overall Manhattan average below 100th Street was 2.35%. Currently, the overall average vacancy rate for Manhattan stands at 1.86%, which is remarkably low in comparison to the nationwide average of 10.8%.\*

**Perspective** The lowest vacancy rates are 0.93% in SoHo/TriBeCa and 1.24% in the West Village. The East Village has become a hotbed for development in recent months, placing more inventory on the market, but high prices have deterred the younger population that normally gravitates to this neighborhood. SoHo/TriBeCa and the West Village are among the most desirable neighborhoods in the city and are far less affected by price changes than other areas.



Source: A sampling of 8-10 key rental buildings in each Manhattan neighborhood below 100th Street, including doorman and non-doorman buildings.  
\* National average from Multifamily Executive, July 2003



# What is renting?

**Analysis** *The bulk of transactions are for studio and one bedroom apartments, with 76% of all renters in the sample group falling into this category of renter.*

Source: All Citi Habitats' transactions from May-Oct 2003 vs. Nov 2002-April 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

**Trend** There has been a significant increase in activity for three bedroom apartments since our last report. They have more than doubled while every other category of apartment remained relatively unchanged.

**Interpretation** The demand for studio and one bedroom apartments has remained high since the last report. If you are a housing provider constructing a new building or renovating an existing site, our research continues to indicate that approximately 80% of your units might best be configured as studios and one bedrooms.

Interestingly, three bedroom renters have doubled since our last report. This is directly correlative to the hot sales market. Because there is a boom in activity for those seeking to buy condominiums and therefore a lack of available inventory, many people are opting to rent larger residences. Another factor may be that would-be buyers have exited the sales market in anticipation a price correction and are renting instead.

# Profile of Manhattan renters

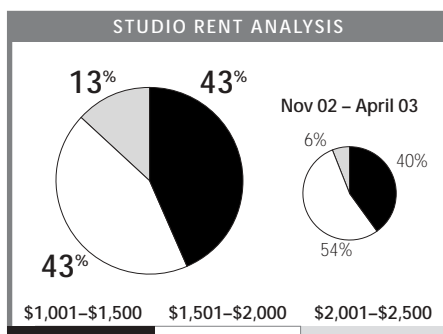
The following graphs illustrate the different price points that renters are paying for various sized apartments. The data indicates the overall demand for rental properties and can be useful in determining the unit makeup of new buildings and the pricing of new and existing rental residences.

## STUDIO PROFILE

**Analysis** Of all studios rented, 56% of clients spent over \$1,500 each month on housing, while 43% spent less than \$1,500 on studios. 13% of studio renters were willing to spend more than \$2,000 a month on rent.

**Trend** Since our last report, 7% more people spent more than \$2,000 per month on rent for studio apartments.

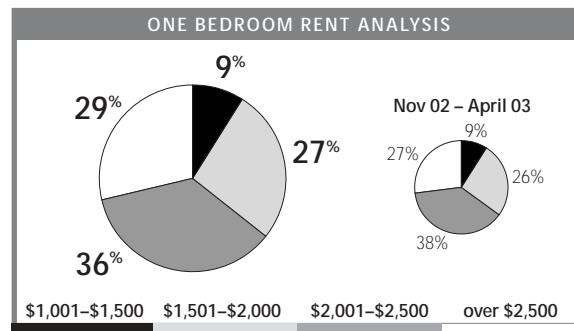
**Perspective** The higher end of the studio market experienced the greatest growth since our last report. This is a good indication of the economy and shows that people are willing to pay a premium for studios with more amenities and luxury finishes. The data supports that the economy is improving and that people are feeling more secure in their employment and financial situation.



Source: All Citi Habitats' transactions from May-Oct 2003 vs. Nov 2002-April 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

## ONE BEDROOM PROFILE

**Analysis** 65% of all one bedroom apartments were rented at over \$2,000, while 35% of one bedrooms were rented between \$1,001 and \$2,000.



Source: All Citi Habitats' transactions from May-Oct 2003 vs. Nov 2002-April 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

**Trend** Compared to our last report, the number of people spending between \$2,000 and \$2,500 per month on rent for one bedroom apartments decreased by 8%, whereas the number of people that spent between \$1,001 and \$1,500 increased by 3%.

**Perspective** One bedrooms remained consistent since our last report because the majority of new apartments in the marketplace were one bedrooms, making it the most competitive apartment size in Manhattan. Because this category contains the greatest inventory, it is the last one to experience significant change. One would agree that one bedrooms are a good indicator of the rental market. Once you see a rise in activity for higher priced one bedrooms, you can officially declare a stronger rental market.

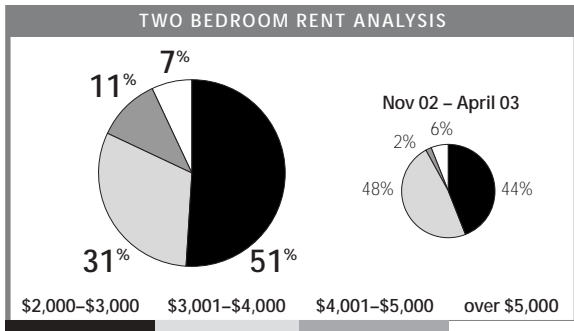
## TWO BEDROOM PROFILE

**Analysis** The majority of two bedroom renters, 51%, are paying less than \$3,000 a month for their apartments. The remaining 49% are spending more than \$3,000 a month.

**Trend** The number of people spending between \$2,000 and \$3,000 in rent for two bedroom apartments increased by 7% since our last report. In contrast, the number of people spending between \$3,001 and \$4,000 in rent decreased by 17% since the previous report. The amount of people spending over \$4,000 a month for two bedrooms increased by 10%.

**Perspective** The luxury two bedroom rental market is faring extremely well, as is the lower end of the market. We have found that there are more price concerns in the \$3,001-\$4,000 range, indicating that the middle class of two bedroom

Continued from p.6



Source: All Citi Habitats' transactions from May-Oct 2003 vs. Nov 2002-April 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

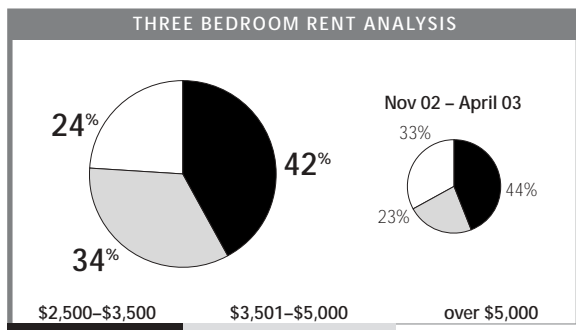
renters is disappearing. These renters may have in the past chosen a second bedroom out of luxury rather than necessity, but have now decided to spend less on a two bedroom, or to move into a one bedroom. A small percentage of two bedroom renters are would-be buyers who are waiting for more inventory in the sales market or have recently sold their own property.

### THREE BEDROOM PROFILE

**Analysis** *Out of all three bedroom apartments rented in our sample group, 76% were priced between \$2,501 and \$5,000. The remaining 24% were priced over \$5,000.*

**Trend** Compared to our last report, renters of moderately priced three bedrooms, between \$3,500 and \$5,000, increased by 11%, while renters at the higher end, greater than \$5,000, decreased by 9%.

**Perspective** The three bedroom market is more of a necessity market than a luxury one. People who did not absolutely need the space generally downsized to a smaller two bedroom apartment. Those who absolutely needed the space typically spent less money on three bedroom apartments over the past six months. Some three bedroom renters are also would-be buyers who are waiting for an opportunity to buy, or have recently sold their own homes.



Source: All Citi Habitats' transactions from May-Oct 2003 vs. Nov 2002-April 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.

# Where are people moving?

## ALL UNITS

**Analysis** *Our findings show that roughly one third, or 36%, of our clients have moved within or to the Upper West Side or the Upper East Side.*

**Trend** The greatest decrease from our last report occurred in Battery Park City/Financial District, with 3% less renters moving to this neighborhood. Murray Hill showed the greatest increase, 2%, while SoHo/TriBeCa and Chelsea experienced only a 1% decrease in renters moving to these areas.

**Perspective** Due to the current state of the rental market, people are able to let their desire for a particular location be the primary factor in selecting a home, favoring more established neighborhoods such as The Upper East Side and Upper West Side. Most Manhattan neighborhoods have reacted by adjusting their rental prices accordingly. Ever since the LMDC grants ended on May 31, 2003 in Battery Park City/Financial District, the percentage of people choosing to move there continued to decline. As predicted in our last report, there is a tremendous amount of rental inventory being developed in Battery Park City/Financial District that will add thousands of residential units to the neighborhood and we can expect to see an increase in rental activity there throughout 2004/2005.

## STUDIOS

**Analysis** *The table to the right indicates that 47% of the studios rented in our sample group were in the Upper East Side, Upper West Side, and Battery Park City/Financial District.*

**Trend** There has been little shifting in neighborhood popularity for studios since our last report. The Upper East Side and the West Village experienced the greatest influx of studio renters, by only 2%.

**Perspective** It comes as no surprise that over 40% of all studio renters are moving to only three neighborhoods. Since studios are usually occupied by people who live alone, they are most often drawn to neighborhoods like the Upper East Side and Upper West Side, which have well established conveniences including restaurants, drycleaners, shopping, and other services. In contrast to this, we have found that studio renters are also drawn to the Battery Park City/Financial District, looking past its second tier neighborhood services and finding greater overall value. Over 50% of units in new construction and newly converted buildings in the Battery Park City/Financial District are studio apartments. These units typically feature greater space than in other neighborhoods, with granite kitchens and marble baths, and their buildings boast hi-tech community rooms and health clubs.

## ONE BEDROOMS

**Analysis** *The data presented in the table indicates that 46% of the one bedrooms rented in our sample group were in the Upper East Side, Upper West Side, and Murray Hill.*

**Trend** There has been some shifting in neighborhood popularity for one bedrooms since our last report. Murray Hill experienced a notable 3% influx of one bedroom renters, while the Upper East Side remained stable and popular, and the Upper West Side increased in popularity by 2%.

**Perspective** The Upper East Side and Upper West Side one bedroom markets are largely made up of young singles and couples, who are drawn to the neighborhoods for their services, convenience, and variety of apartments. Many of these people have also been forced to rent because of the incredibly hot condo market. In contrast, most of the one bedrooms in Murray Hill are being rented by shares using temporary walls to create a second bedroom. As the economy revives and the job market comes back, one bedrooms in Murray Hill, conveniently located in Midtown near many office buildings, will continue to rise in price and demand. As the condo market continues to skyrocket, we can expect to see more people moving to one bedroom rentals on the Upper East Side and Upper West Side as well.

## TWO BEDROOMS

**Analysis** *As shown to the right, of all two bedroom apartments rented in the sample group, 49% were in the Upper East Side, Upper West Side, and the East Village.*

**Trend** There was little change in popularity among two bedroom renters since our last report. The Upper East Side and the Upper West Side are still the prime destinations for this apartment size.

**Perspective** The Upper East Side and Upper West Side tend to attract families and young couples to the majority of the two bedroom apartments there. The East Village, however, attracts many shares and students to its two bedroom apartments for their overall value and downtown location.

## THREE BEDROOMS

**Analysis** *Out of all the three bedroom apartments rented in the sample group, 44% were in the Upper East Side and the Upper West Side.*

**Trend** As was the case with two bedrooms, the Upper East Side and Upper West Side continued to be the prime destination for three bedroom apartment renters.

**Perspective** The Upper East Side and Upper West Side have traditionally been the locations with the greatest inventory of three bedroom apartments. Renters seeking these larger apartments are either willing to pay more for the luxury of a three bedroom or have been displaced out of the condo/co-op sales market. Additionally, the Gramercy/Flatiron neighborhood experienced an increase in popularity for three bedroom apartments due to its significant number of extremely desirable lofts, often classified as three bedrooms.



	All Units	Studios	One Bedrooms	Two Bedrooms	Three Bedrooms
<b>PERCENTAGE OF RENTERS IN EACH NEIGHBORHOOD</b>					
<b>BPC / FINANCIAL DIST.</b>					
MAY03–OCT03	9%	13%	8%	8%	9%
NOV02–APR03	12%	16%	11%	9%	12%
<b>SOHO / TRIBECA</b>					
MAY03–OCT03	4%	1%	4%	6%	3%
NOV02–APR03	5%	2%	4%	4%	2%
<b>WEST VILLAGE</b>					
MAY03–OCT03	8%	8%	8%	8%	6%
NOV02–APR03	7%	6%	7%	7%	11%
<b>EAST VILLAGE</b>					
MAY03–OCT03	9%	8%	9%	10%	8%
NOV02–APR03	8%	7%	8%	10%	7%
<b>CHELSEA</b>					
MAY03–OCT03	6%	6%	6%	7%	4%
NOV02–APR03	7%	6%	8%	7%	2%
<b>GRAMERCY / FLATIRON</b>					
MAY03–OCT03	6%	6%	7%	5%	11%
NOV02–APR03	6%	7%	7%	4%	5%
<b>MURRAY HILL</b>					
MAY03–OCT03	9%	8%	10%	8%	5%
NOV02–APR03	7%	7%	7%	7%	5%
<b>MIDTOWN EAST</b>					
MAY03–OCT03	5%	6%	4%	3%	6%
NOV02–APR03	5%	6%	5%	3%	4%
<b>MIDTOWN WEST</b>					
MAY03–OCT03	9%	10%	9%	8%	6%
NOV02–APR03	9%	12%	9%	7%	7%
<b>UPPER EAST SIDE</b>					
MAY03–OCT03	20%	19%	19%	22%	28%
NOV02–APR03	19%	17%	19%	22%	27%
<b>UPPER WEST SIDE</b>					
MAY03–OCT03	16%	15%	17%	17%	16%
NOV02–APR03	15%	14%	15%	20%	18%

Source: All Citi Habitats' transactions from May–Oct 2003 vs. Nov 2002–April 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 5,000 rental transactions for the period.



<b>CITI HABITATS</b> Corporate Headquarters 250 Park Avenue South Residential Sales HQ	
<b>CITI HABITATS</b> RELOCATION	
 <b>COMMERCIAL</b> REAL ESTATE GROUP, LLC. <small>AN AFFILIATE OF CITI HABITATS</small>	<b>CITI HABITATS</b> MARKETING

**CITI HABITATS**  
 Corporate Training Facility  
 450 Park Avenue South

Upper West Side  
 465 Columbus Avenue

Upper West Side  
 222 West 72nd Street

Upper East Side  
 400 East 84th Street

Upper East Side  
 400 East 76th Street

Midtown West  
 346 West 57th Street

Midtown East  
 937 Second Avenue

Murray Hill Sales  
 30 East 33rd Street

Murray Hill  
 206 East 38th Street

Chelsea  
 155 Seventh Avenue

Gramercy/Flatiron  
 27 East 22nd Street

West Village  
 114 Perry Street

Gramercy/Flatiron  
 32 East 22nd Street

**SoLOFTS**  
 New York's Loft & Fine Home Specialists  
 36 East 12th Street

East Village  
 37 Third Avenue

Greenwich Village  
 1 Great Jones Street

**SoLOFTS**  
 New York's Loft & Fine Home Specialists  
 62 Greene Street

Financial District  
 100 John Street

**SoLOFTS**  
 New York's Loft & Fine Home Specialists  
 145 Montague Street, Brooklyn Heights

*With 20 offices  
 citywide, Citi Habitats  
 completed 10,000  
 rental transactions in 2003,  
 totaling over \$600 million.  
 We sold more than  
 two apartments every day,  
 including New Year's!  
 Our sales and rentals figures  
 surpassed \$900 million!*

# Rental prices

The following graphs illustrate the average rents for studio, one bedroom, two bedroom, and three bedroom apartments in Manhattan's different neighborhoods for the current six month period compared to those of the last six months. Below each graph, the average rental price per square foot for all neighborhoods is compared for the two six month periods.

## STUDIOS

**Analysis** The highest priced studios were found in the SoHo/TriBeCa, Battery Park Vicinity, Chelsea and Midtown West neighborhoods. The average rental price for studio apartments in these neighborhoods exceeded the overall average price for studios in Manhattan, which was \$1,625.

**Trend** The overall average rental price for studio apartments in Manhattan increased since our last report, from \$1,600 to \$1,625 (1.56%). Notable change occurred in SoHo/TriBeCa, where studios went up 7% in price, and in Chelsea, which experienced an increase of 8%. Meanwhile, the price of studios in the West Village decreased by 4%.

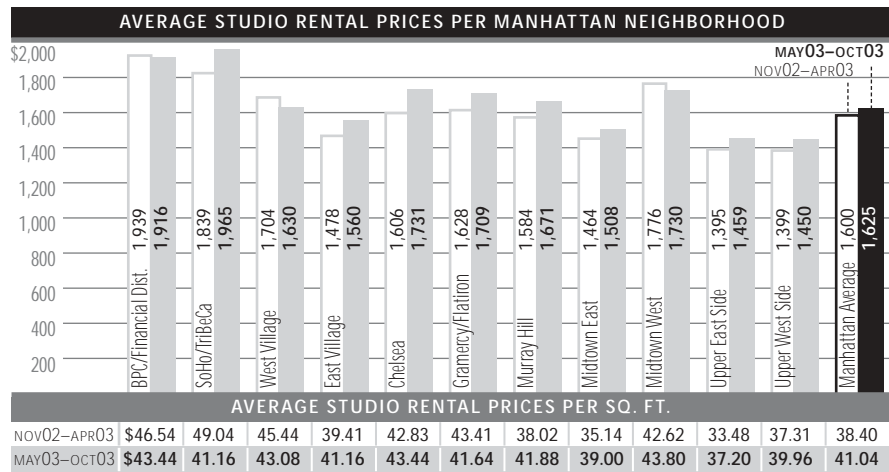
**Perspective** In our last report, we noted that the market for studios had found its bottom and we predicted that studio prices would increase. Now, prices are on the rise, and we can expect an even more significant rise in the next six months than we had seen in the previous six month period.

## ONE BEDROOMS

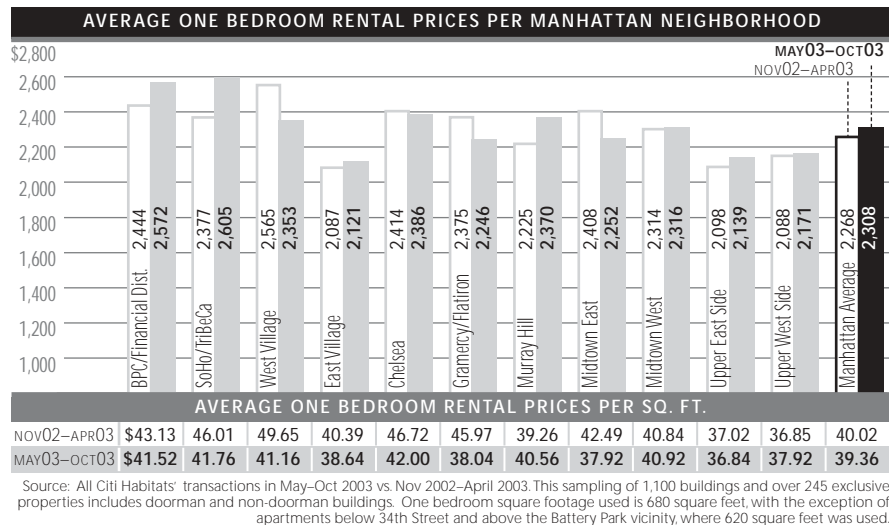
**Analysis** The highest priced one bedroom apartments in Manhattan were in SoHo/TriBeCa, Battery Park Vicinity, Chelsea, and Murray Hill. The average rental price for one bedroom apartments in these neighborhoods exceeded the overall average price for one bedrooms in Manhattan, which was \$2,308.

**Trend** Overall, the average rental price for one bedroom apartments increased by 2%. However, there was a noticeable 8% drop in rent for one bedrooms in the West Village, and a drop of 6% in Midtown East.

**Perspective** SoHo/TriBeCa and Murray Hill had a lot of room to increase since prices in these areas had been slightly lower than normal in our last report. Once the job market accelerates, we will likely see an even greater price increase in one bedrooms. Since one bedrooms make up the majority of the rental inventory in the marketplace, an increase in their price points to a healthy economy and an overall strong rental market.



Source: All Citi Habitats' transactions in May-Oct 2003 vs. Nov 2002-April 2003. This sampling of 1,100 buildings and over 245 exclusive properties includes doorman and non-doorman buildings. Studio square footage used is 500 square feet, with the exception of apartments in the Upper West Side, below 34th Street and above the Battery Park vicinity, where 450 square feet was used.



Source: All Citi Habitats' transactions in May-Oct 2003 vs. Nov 2002-April 2003. This sampling of 1,100 buildings and over 245 exclusive properties includes doorman and non-doorman buildings. One bedroom square footage used is 680 square feet, with the exception of apartments below 34th Street and above the Battery Park vicinity, where 620 square feet was used.

## TWO BEDROOMS

**Analysis** *The highest priced two bedroom apartments in Manhattan were in SoHo/TriBeCa, Chelsea, and Gramercy/Flatiron. The average rental price for two bedroom apartments in these neighborhoods exceeded the overall average price for two bedrooms in Manhattan, which was \$3,231.*

**Trend** Two bedroom apartments have decreased in price since our last report, from \$3,345 to \$3,231 (3.41%). The greatest change in two bedroom rents were in the Upper East Side, dropping 17%; The West Village, dropping 7%; and Gramercy/Flatiron, which increased by 12%.

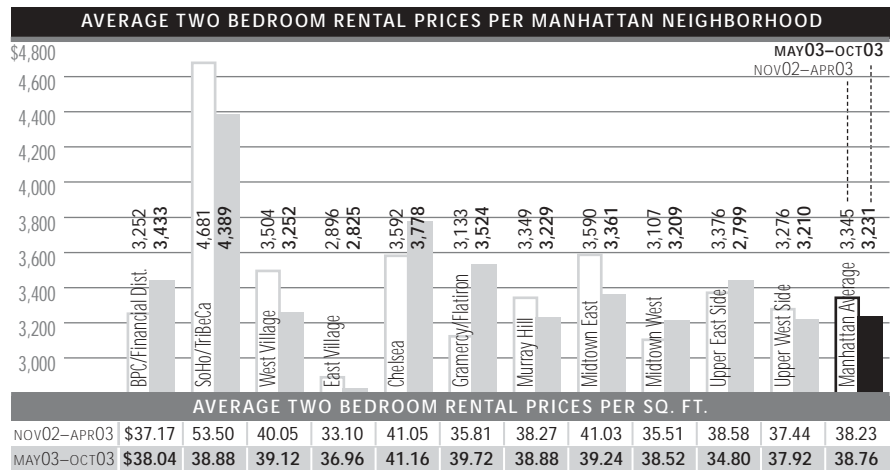
**Perspective** According to our reports, two bedroom apartments experienced an unusually soft period in a very price sensitive market. More often than not, people rent two bedrooms out of luxury, and because the economy has not fully recovered, many people are not willing to pay an extra \$800 a month for a second bedroom. Instead they are compromising by living in one bedrooms. In addition, the two bedroom market has been affected by new construction and the free rent incentives that most new buildings offer, effectively lowering the yearly rent. As a result, older buildings are forced to lower their prices to stay competitive.

## THREE BEDROOMS

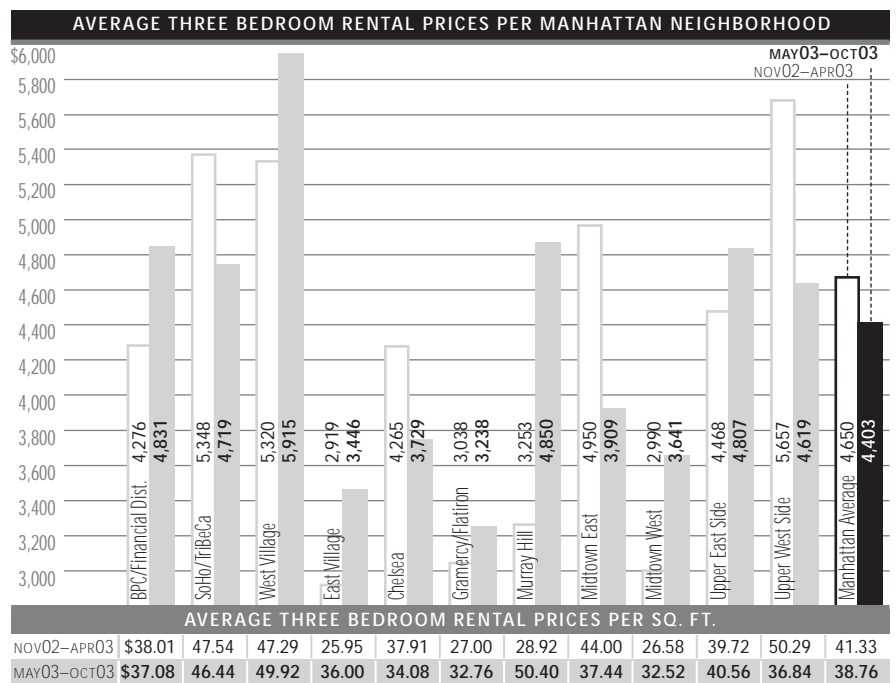
**Analysis** *The highest priced three bedroom apartments were located in the West Village, Murray Hill, Battery Park Vicinity, and the Upper East Side, all priced above the average overall rental price of \$4,403.*

**Trend** The three bedroom market has decreased since our last report, from \$4,650 to \$4,403 (5.31%). Areas experiencing significant changes were Midtown West, which increased by 22%; Midtown East, down by 21%; and the Upper West Side, down by 18%.

**Perspective** Midtown West and Murray Hill likely showed significant increases because they are typically populated with lots of shares —renters who are sharing their residences. Because the economy is improving, there are more opportunities for young professionals to come into the city to work and live. It is also possible that families who have sold their residences, or are waiting to buy in the red hot condo market, have chosen to rent in these neighborhoods, thus creating a higher demand for three bedrooms there, at an elevated price. And just as we expect the price of two bedrooms to increase, we predict that three bedroom prices will rise as well.



Source: All Citi Habitats' transactions in May-Oct 2003 vs. Nov 2002-April 2003. This sampling of 1,100 buildings and over 245 exclusive properties includes doorman and non-doorman buildings. Two bedroom square footage used is 1,050 square feet.



Source: All Citi Habitats' transactions in May-Oct 2003 vs. Nov 2002-April 2003. This sampling of 1,100 buildings and over 245 exclusive properties includes doorman and non-doorman buildings. Three bedroom square footage used is 1,350 square feet.

**Definition of Terms**

OP (owner-paid) concessions and free rent are two incentives used by landlords to make their properties more attractive to prospective renters and agents. Concessions occur when the owner of a building offers to pay a portion or all of the broker's fee. Some owners may offer an additional concession wherein they will allow the tenant to live rent free for one to three months.

# OP concessions/free rent

The table to the left illustrates the different effective rents for studios, one bedrooms and two bedrooms in the various neighborhoods south of 100th Street. Effective rent is the annual rent minus the concessions offered. In Manhattan's complicated real estate market, this table levels the field by making an apples to apples comparison.

**Discussion** The OP concession/free rent was commonplace in the New York market up until 1996 and all but disappeared in the booming years immediately following. However, many of these incentives started to reappear in the weeks following September 11, 2001 and are now typical in many buildings throughout the city. At any given time, Citi Habitats maintains approximately 550 rental buildings in its database that are offering some type of incentive. In addition, we have listings from approximately 70 individual owners of co-ops, condos, or lease breaks who are also offering some sort of incentive.

The owner-paid commission is an incentive to induce tenants to sign leases and brokers to show select properties. Usually equivalent to one month's rent, a typical OP makes up 8.333% of the standard broker's commission of 15%, which lightens the burden on a new tenant who uses a broker. The OP helps the tenant pay that portion of the fee. In some cases, a broker also has the right to forfeit this commission and allow the client to use it as a reduction of their annual rent. Many landlords offer free rent concessions to tenants in order to fill their properties. While they typically offer one month of free rent, many newly constructed buildings offer up to three free months of rent, effectively filling up their property faster. When lease renewals come around, the rent is increased based on the actual monthly rental price, without considering the concessions offered.

When all said and done, OPs or free rent concessions are effective marketing tools for landlords and buildings. This is clearly evident in the featured table comparing various OPs with standard buildings that do not offer any concessions.



EFFECTIVE RENT BY MANHATTAN NEIGHBORHOOD				
Studios	NO INCENTIVES	FREE RENT + OP	FREE RENT ONLY	OP ONLY
BPC/Fin. District	\$1,861	\$1,862	\$ 1,868	\$1,925
SoHo/TriBeCa	2,044	2,235	2,235	1,814
West Village	1,613	N/A*	1,250	1,767
East Village	1,491	1,670	1,673	1,822
Chelsea	1,572	2,125	2,069	1,963
Gramercy/Flatiron	1,622	1,645	2,398	1,957
Murray Hill	1,552	2,115	2,084	1,812
Midtown East	1,487	N/A*	N/A*	1,656
Midtown West	1,532	2,002	1,991	1,867
Upper East Side	1,388	1,833	1,769	1,557
Upper West Side	1,396	1,905	1,663	1,674
One Bedrooms	NO INCENTIVES	FREE RENT + OP	FREE RENT ONLY	OP ONLY
BPC/Fin. District	\$2,384	\$2,883	\$2,836	\$2,640
SoHo/TriBeCa	2,495	2,710	2,799	2,715
West Village	2,354	N/A*	N/A*	N/A*
East Village	2,003	2,687	2,560	2,387
Chelsea	2,140	3,168	2,948	2,631
Gramercy/Flatiron	2,160	2,566	2,578	2,466
Murray Hill	2,109	2,891	2,789	2,568
Midtown East	2,155	N/A*	N/A*	2,429
Midtown West	2,212	2,533	2,530	2,382
Upper East Side	2,044	2,660	2,553	2,211
Upper West Side	2,105	2,642	2,529	2,418
Two Bedrooms	NO INCENTIVES	FREE RENT + OP	FREE RENT ONLY	OP ONLY
BPC/Fin. District	\$3,660	\$3,993	\$3,920	\$3,271
SoHo/TriBeCa	4,460	3,692	3,869	4,174
West Village	3,185	N/A*	N/A*	2,886
East Village	2,706	3,275	2,993	3,222
Chelsea	3,337	4,718	4,974	4,366
Gramercy/Flatiron	3,488	3,314	3,314	3,577
Murray Hill	2,969	3,944	3,944	3,439
Midtown East	3,061	N/A*	N/A*	3,561
Midtown West	2,853	3,601	3,583	3,470
Upper East Side	2,874	3,857	3,522	2,732
Upper West Side	3,222	5,065	5,065	3,140

Source: All Citi Habitats' transactions from May through October 2003. Includes over 5,000 transactions. \* Sample group for this neighborhood too small to attain accurate average.

► Continued from p.12

*In today's competitive real estate marketplace, we must consider net effective rents in order to analyze income and cost effectively.*

*The examples to the right illustrate the manner in which various concessions are distributed and how effective rents are determined. Note that for simplicity, the owner-paid commission (OP) was used towards reducing the tenant's rent and not towards payment of the broker's fee.*

HOW TO CALCULATE NET EFFECTIVE RENTS	
<b>Example 1</b>	<p>If the monthly rent for an apartment is \$2,400 a month and the landlord is offering one month free rent and one month OP:</p> $\frac{\$2,400 \times 11 \text{ MONTHS [12 - 1 free MONTH]} - \$2,400 [1 \text{ MONTH OP}]}{12 \text{ MONTHS}} = \$2,000 \text{ effective rent}$
<b>Example 2</b>	<p>If the monthly rent for an apartment is \$3,200 a month and the landlord is offering two months' free rent:</p> $\frac{\$3,200 \times 10 \text{ MONTHS [12 - 2 free MONTHS]}}{12 \text{ MONTHS}} = \$2,666 \text{ effective rent}$
<b>Example 3</b>	<p>If the monthly rent for an apartment is \$1,600 a month and the landlord is offering a one month OP:</p> $\frac{\$1,600 \times 12 \text{ MONTHS} - \$1,600 [1 \text{ MONTH OP}]}{12 \text{ MONTHS}} = \$1,467 \text{ effective rent}$

# Internet *search data*

*One of the most phenomenal aspects of the Internet is its ability to measure customers' desires. Citi Habitats has one of the most heavily trafficked websites in the industry and our agents have completed a record-breaking number of transactions this year. We have first-hand knowledge of how people act versus their initial expectations.*

*The table to the right illustrates what web searchers estimated they would pay when renting various sized apartments, compared to the actual average rental prices for these apartments.*

	Studios	One Bedrooms	Two Bedrooms	Three Bedrooms
<b>WEBSITE VISITORS' AVERAGE RENT EXPECTATIONS VS. MANHATTAN RENTS</b>				
Expected Rent	\$1,394	\$1,870	\$2,505	\$3,486
Average Rent	\$1,625	\$2,308	\$3,231	\$4,403

Source: All Citi Habitats' website visitors at www.citi-habitats.com from May through October 2003.

**Analysis** *Based on web rental leads versus overall average rents, people were willing to pay 17% more in rent for studios than they initially expected to pay. For one bedrooms, they were willing to pay 23% more than they initially expected. For two bedrooms, they were willing to pay 29% more, and for three bedrooms, prospective renters were willing to pay 26% more than they had initially expected.*

**Trend** The difference in what renters are willing to spend versus what they initially expected to spend remained similar to our last report. However, in the case of two bedrooms, renters only increased their spending by 29%, which is a 7% decrease from last time. In contrast, for three bedrooms, spending increased by 26%, which was 4% more than in our last report.

**Perspective** In the current market, renters are cost conscious. They are looking for bargains and the best possible value, thinking that the market is softer than it really is. Renters are also conditioned to believe that rental prices are non-negotiable and therefore initially enter web searches with lower cost parameters. In the end, however, we have found that most rental clients are willing to pay approximately 25% more money for the right apartment that best suits their needs.

► Continued from p.13

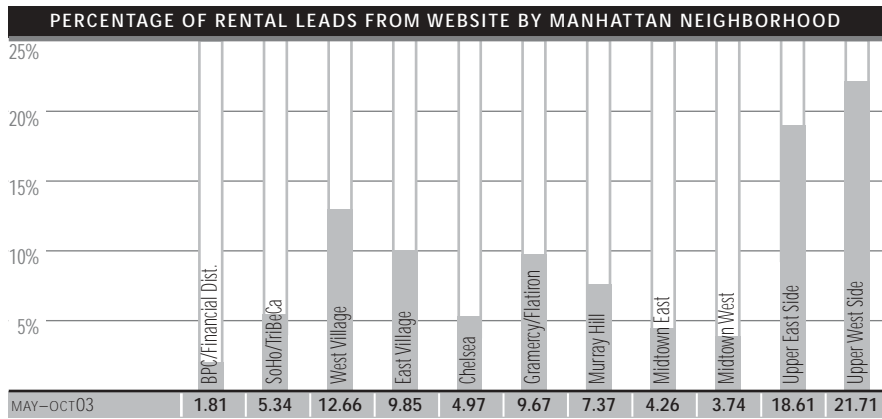
*These tables show the percentage of Citi Habitats' web leads seeking to rent or buy in the various Manhattan neighborhoods.*

**Discussion** The Internet currently makes up for approximately 30% of Citi Habitats' total leads, a marked increase from 5% just four years ago. This technology gives customers an unimposing way to do their apartment search and research ahead of time. An online database, like [citihabitats.com](http://citihabitats.com), is easy to use and is updated daily. The average time that an apartment for sale will be on the market is 12 weeks, while a rental apartment is usually snatched up in 3 to 4 days, making the Internet one of the most efficient means of exposure for available properties. In recent years, online technology has grown to include virtual tours, pictures, and floor plans, all of which have helped steer the real estate market towards e-real estate. These tools are highly instrumental in helping apartment seekers weed out unwanted apartments, making the broker's job more efficient.

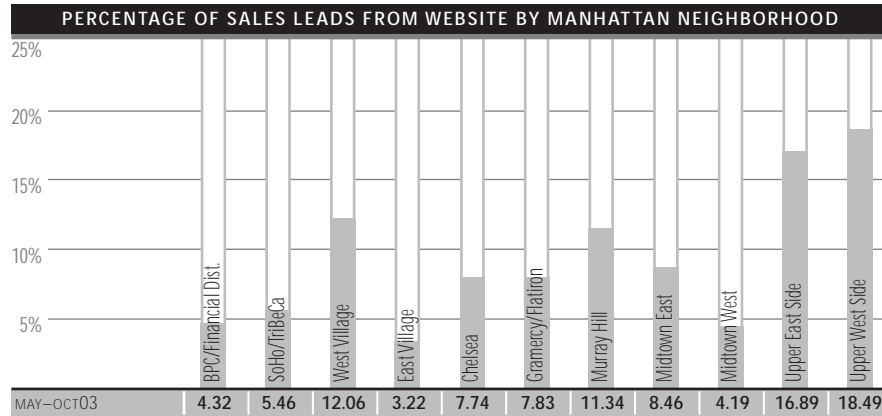
Despite the clear advantages of searching for an apartment on the web, the Internet will never make the need for a knowledgeable broker guiding you through the process of finding a home in New York obsolete. Citi Habitats rarely rents apartments sight unseen and for good reason. The Internet triggers the use of only one of our five senses. Finding an apartment truly involves using all five. Is an apartment noisy? Does it have a certain odor? Can you feel a breeze when the window is left open? Can you taste the neighborhood restaurants?

While clients may become educated about the market from using the Internet, most still insist upon seeing an apartment before they move in.

There is certainly no substitute for a good broker, and over the next 10 to 20 years, it is projected that 80%–90% of Citi Habitats' business will come to us through the Internet.



Source: Citi Habitats' web searches for Rentals from May through October 2003.



Source: Citi Habitats' web searches for Sales from May through October 2003.





*For a customized report tailored to your specific needs, contact the Market Research Department at our Corporate Headquarters 212.685.7777*

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