

# Update 4

## **The Black and White Report**

**A Semi-Annual Report  
4th Edition**

A Comprehensive Analysis of  
the Manhattan Residential  
Rental Market from  
November 2003-April 2004

## METHODOLOGY 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. The information that follows is drawn from the period of November 2003 through April 2004 which is considered the *off-peak* season. We break this rental information down into smaller, more size-specific categories, such as geography and unit type, 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 offices citywide, and incorporating a sampling of more than ten thousand executed rental 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 (May through October 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.



**REBNY**  
Real Estate Board of New York

# The Black and White Report

## 4th Edition

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Andrew  
Heiberger

### LETTER FROM OUR PRESIDENT

On behalf of Citi Habitats, Inc., I am pleased to present *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 transactions over the course of a 12-month period.

From identifying the rental price per square foot of today's most popular rentals or the neighborhood with the least vacancies, to finding the area with the highest migration patterns 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.

In June 2004, we were acquired by NRT, Inc. The joining of our two companies has made a tremendous impact on the Manhattan real estate market. The combination of our resources, sales and rental expertise and unparalleled customer service has set a new standard for excellence in our market; including the delivery of this exclusive market research report. Whether you are an owner, developer or architect, by thoroughly analyzing this data, you can really maximize your 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 be made available electronically as well. For this reason, it is critical that you take a moment to register on the Market Watch section of our website, [www.citihabitats.com](http://www.citihabitats.com), to receive future *Black and White Reports*.**

*The Black and White Report* is 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  
Citi Habitats, Inc.

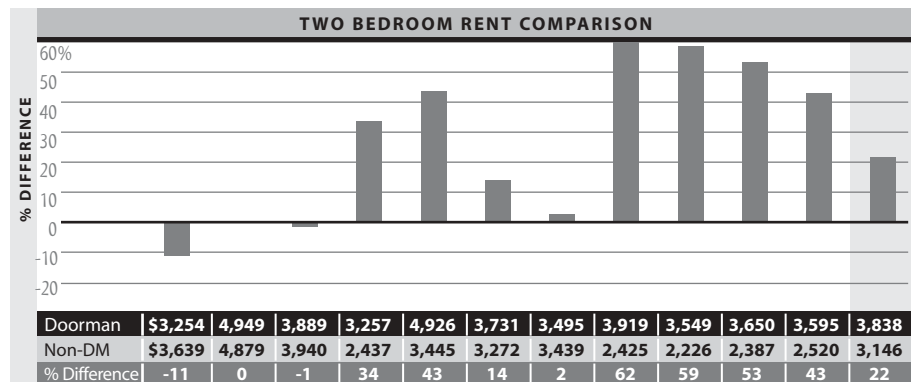
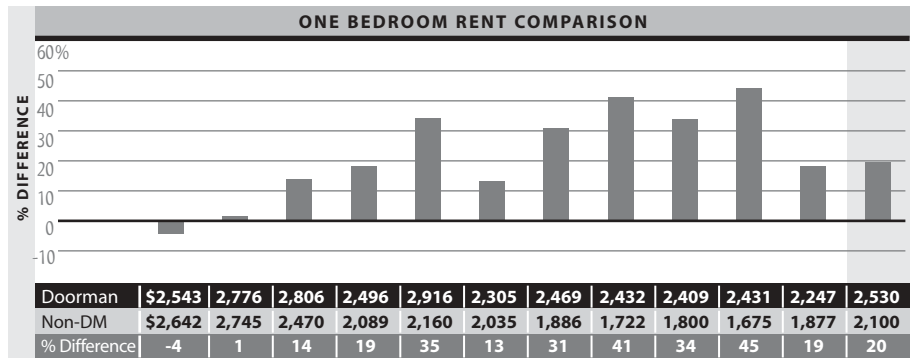
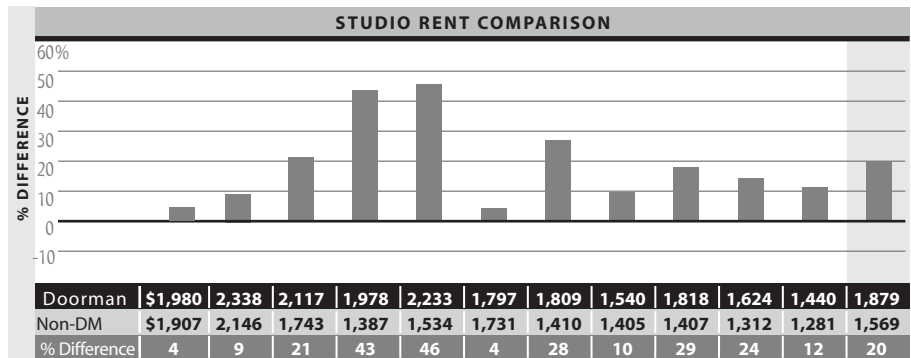
# Doorman

## vs. non-doorman rental comparison

**Analysis** It was noted that on average, rents in doorman buildings were approximately 21% higher than rents found in non-doorman buildings. The greatest overall differences in average rental prices between doorman and non-doorman occurred in two bedrooms. The neighborhoods that experienced the greatest difference in rental prices between doorman and non-doorman buildings throughout all unit types were Midtown East, Midtown West and the Upper East Side.

**Perspective** Rents are still significantly higher in doorman buildings versus non-doorman buildings, by an average of \$475. Although the price gap between this particular amenity has decreased from our last report, there is a significant advantage to owning luxury buildings with doormen because they command higher rents. With decreasing vacancies and low inventory levels of rental units, tenants will expect to pay a premium for the security and convenience of having a doorman in the building.

BPC/Financial Dist.  
SoHo/TriBeCa  
West Village  
East Village  
Chelsea  
Gramercy/Flatiron  
Murray Hill  
Midtown East  
Midtown West  
Upper East Side  
Upper West Side  
Manhattan Average



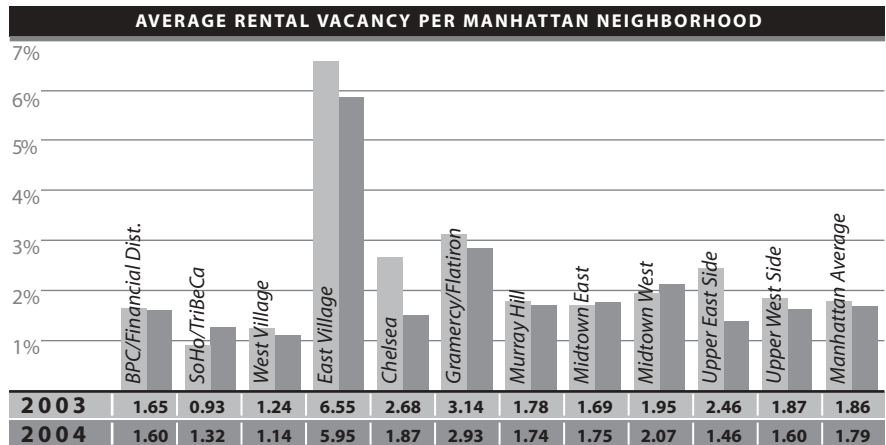
Source: All Citi Habitats' transactions from November 2003 through April 2004. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 4,350 rental transactions for the period.

# Rental vacancy rates

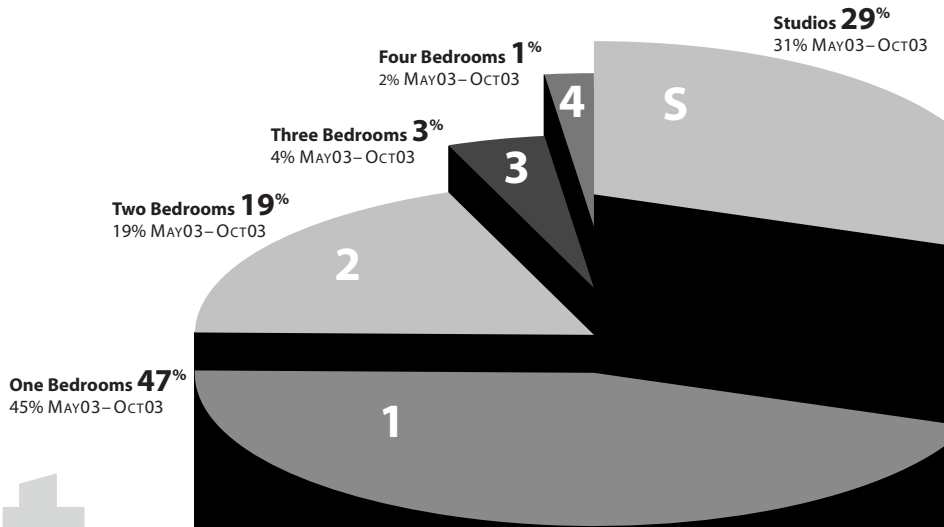
**Analysis** Vacancies, on average, have remained low with the lowest vacancy rates in rental apartments being found in the SoHo/TriBeCa (1.32%) and the West Village (1.14%) neighborhoods. Almost every neighborhood has experienced a decrease in vacancy rates, symbolizing a strong rental market and limited inventory.

**Trend** Vacancy rates continue to decrease. Manhattan's overall vacancy rate is approximately 1.79% as compared to 1.86% in October 2003. Compared to the national average, Manhattan's vacancy rate is one of the strongest in the country; the national vacancy rate now stands at a record 10.5%.\*

**Perspective** We have seen extremely low vacancy rates prior to the peak season and this pattern was expected to continue through the 2004 peak season, which runs from May through September each year. Looking forward, vacancy rates should maintain their low levels; new construction is active but is being produced in line with current demand levels. Manhattan's vacancy rates are expected to remain at sub-2% levels, significantly below the national average of 10%.



Source: A sampling of 8-10 key rental buildings in each Manhattan neighborhood below 100th Street, including doorman and non-dorman buildings. \* Fortune Magazine



## What is renting?

**Analysis** The majority of rental transactions that occurred between November 2003 and April 2004 were in the studio and one bedroom unit types. Approximately 76% of all apartments rented were in these two unit types. On the other end of the rental product spectrum, only 1% of the apartments rented were four bedrooms or larger.

**Trend** There has been little change in the frequency of rented unit types throughout Manhattan over the past two reports. The number of studios being rented decreased only two percentage points while one bedrooms increased three percentage points. The city's two bedroom unit types have experienced the same rental levels from the last report while the three- and four bedroom apartments have both decreased 1 percentage point.

**Perspective** The demand for studio and one bedroom apartments has remained consistent over the past two report periods. Developers should note the steadily high demand for these two unit types and their construction unit mix should reflect this demand projection. Owners should also note these trends when determining rental levels.

Source: All Citi Habitats' transactions from Nov 2003-April 2004 vs. May-Oct 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-dorman buildings. Totals over 4,350 rental transactions for the period.

# Profile of Manhattan renters

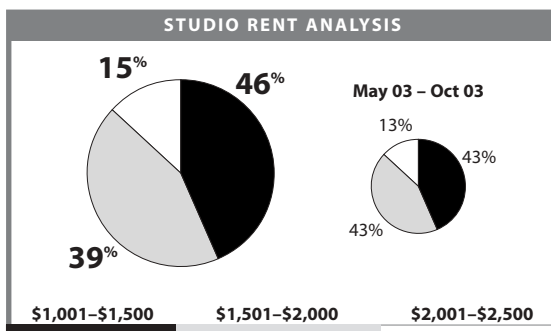
The following graphs illustrate the different price points that renters are paying for various sized apartments. The data is representative of the demand for rental unit types at different price points. This information has been useful in determining the pricing thresholds for both new and existing rental units.

## STUDIO PROFILE

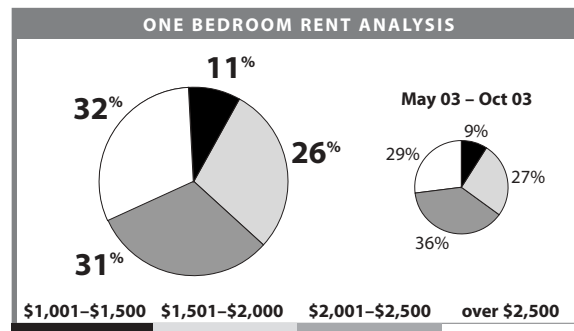
**Analysis** Of all studios rented, 54% of the study group spent over \$1,500 each month on housing, while 46% spent less than \$1,500 on their studios. 15% of studio renters had leased their units for more than \$2,000 a month.

**Trend** Since our last report, the percentage of renters who spent more than \$2,000 per month for studio apartments has increased 2 percentage points and the number of renters who spent less than \$1,500 increased by 3 percentage points. The only decrease within the studio unit type occurred in the \$1500-\$2000 price range, decreasing approximately 4 percentage points from our last report.

**Perspective** The studio unit type has maintained its attraction levels since our last report; as such, the price points have also maintained steady levels. We expect this to continue in future reports as well. As rental rates continue to rise and the one and two bedroom apartments get priced out of the renter's budget, the studio unit type becomes an increasingly attractive option.



Source: All Citi Habitats' transactions from Nov 2003-April 2004 vs. May-Oct 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 4,350 rental transactions for the period.



Source: All Citi Habitats' transactions from Nov 2003-April 2004 vs. May-Oct 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 4,350 rental transactions for the period.

## ONE BEDROOM PROFILE

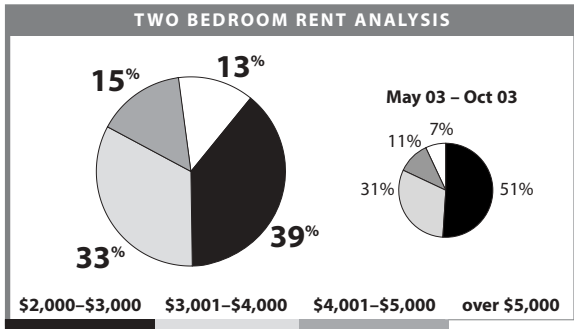
**Analysis** 63% of all one bedroom apartments in our study group were rented for over \$2,000 per month, while 37% of one bedrooms were rented for less than \$2,000 per month.

**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 5 percentage points, whereas the number of people that spent more than \$2,500 increased by 3 percentage points. The lower priced one bedroom apartments increased by 2 percentage points.

**Perspective** The one bedroom unit type has historically represented the barometer for the strength in the rental market; an increase in the number of people renting higher priced one bedrooms typically reflects a strong market. We expected the present data to reflect the end of the unchanging rental market and look for the next report to show increased spending on rents.

## TWO BEDROOM PROFILE

**Analysis** The greatest group of two bedroom renters, 39%, are paying less than \$3,000 for their apartments, followed by those paying between \$3,000 and \$4,000, which was 33%. The remaining 28% are spending more than \$4,000 a month. The two bedroom unit type contains both true two bedroom units as well as large one bedroom units which have temporary walls installed to create the second bedroom. The result has an impact on rental rates as the true two bedroom unit typically generates a higher monthly rent.



Source: All Citi Habitats' transactions from Nov 2003-April 2004 vs. May-Oct 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 4,350 rental transactions for the period.

**Trend** We have realized that the number of people spending between \$2,000 and \$3,000 in rent for two bedroom apartments decreased by 12 percentage points since our last report. In contrast, the number of people spending more than \$3,001 in rent increased, especially those spending more than \$5,000 in rent, increasing by 6 percentage points since the previous report. The lack of inventory in the two bedroom unit type, which is indicative of a strong rental market, is the driving force of this trend.

**Perspective** In conjunction with a strong real estate market, we have seen the Manhattan renter choose to take on a roommate or a second occupant, pushing the demand for two bedrooms upward. However, with converted shares becoming increasingly hard to come by, renters are forced to look at true two bedrooms which fall in the higher price range (\$4,000+). The demand for higher price points in this unit type is expected to continue over the next reporting period, as we see the premium for multiple bedrooms increase.

# Where are people renting?

## ALL UNITS

**Analysis** *Our findings show that roughly one third, or 37%, of our clients have moved within or to the Upper West Side or the Upper East Side neighborhoods. In relation to other completed rental transactions in our study group, the SoHo/TriBeCa neighborhood experienced approximately 3% of the overall rental activity.*

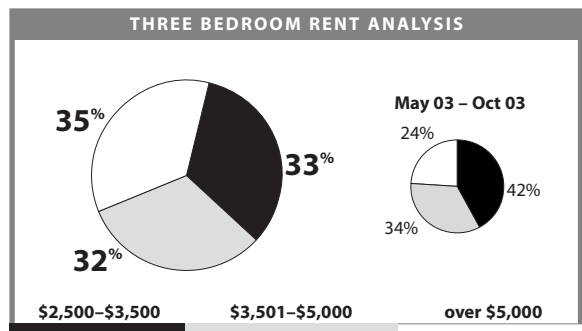
**Trend** The greatest increase since our last report occurred in Chelsea. This area experienced a 3 percentage point increase, signifying an influx of renters moving there. The East Village and Midtown West neighborhoods each experienced a decline in number of renters by 2 percentage points.

## THREE BEDROOM PROFILE

**Analysis** *Out of all three bedroom apartments rented in our study group, the largest group, 35%, was from those priced above \$5,000. 33% were priced from \$2,500 to \$3,500, while 32% were priced between \$3,501 and \$5,000.*

**Trend** Compared to our last report, renters of high-end three bedroom units priced above \$5,000 increased by approximately 11 percentage points, while renters of lower priced three bedrooms, below \$3,501, decreased by 9 percentage points.

**Perspective** Lack of rental inventory has pushed rental rates up significantly; a clear sign of a strong rental market. As a result, the available supply of three bedroom units falls within the \$5,000 per month price range. The continuing trend within the three bedroom unit type has been driven by a large number of former apartment owners who sold their property to take advantage of the recent sales boom and are renting high-end three bedroom apartments instead or until they decide to buy again. Additionally, the shortage of lower priced three bedroom units is most likely a result of those people deciding to buy two bedroom apartments to take advantage of the recent low interest rates.



Source: All Citi Habitats' transactions from Nov 2003-April 2004 vs. May-Oct 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 4,350 rental transactions for the period.

**Perspective** The Upper East Side and Upper West Side neighborhoods are ever more popular due to the shift in all types of renters, from singles to families, choosing to remain in New York City rather than migrate to the suburbs. These two neighborhoods have experienced tremendous growth, with new construction providing homes surrounded by restaurants, culture and shopping that are easily accessible to areas within and outside New York City. An example is the new development along the West Side Highway. A continued revitalization in Chelsea and The Battery Park City/Financial District, has enabled these neighborhoods to enjoy popularity as well.

Continued on p.6 ►

All Units Studios 1 Bedrooms 2 Bedrooms 3 Bedrooms

PERCENTAGE OF RENTERS IN EACH NEIGHBORHOOD					
<b>BPC / FINANCIAL DIST.</b>					
NOV03-APR04	10%	13%	7%	8%	16%
MAY03-OCT03	9%	13%	8%	8%	9%
<b>SOHO / TRIBECA</b>					
NOV03-APR04	3%	1%	2%	4%	6%
MAY03-OCT03	4%	1%	4%	6%	3%
<b>WEST VILLAGE</b>					
NOV03-APR04	9%	6%	10%	9%	6%
MAY03-OCT03	8%	8%	8%	8%	6%
<b>EAST VILLAGE</b>					
NOV03-APR04	7%	7%	6%	10%	10%
MAY03-OCT03	9%	8%	9%	10%	8%
<b>CHELSEA</b>					
NOV03-APR04	9%	10%	10%	7%	3%
MAY03-OCT03	6%	6%	6%	7%	4%
<b>GRAMERCY / FLATIRON</b>					
NOV03-APR04	5%	6%	6%	4%	7%
MAY03-OCT03	5%	6%	7%	5%	11%
<b>MURRAY HILL</b>					
NOV03-APR04	8%	8%	8%	6%	5%
MAY03-OCT03	9%	8%	10%	6%	5%
<b>MIDTOWN EAST</b>					
NOV03-APR04	5%	6%	5%	3%	5%
MAY03-OCT03	5%	6%	4%	3%	6%
<b>MIDTOWN WEST</b>					
NOV03-APR04	7%	8%	7%	7%	4%
MAY03-OCT03	9%	10%	9%	8%	6%
<b>UPPER EAST SIDE</b>					
NOV03-APR04	20%	19%	21%	21%	24%
MAY03-OCT03	20%	19%	19%	22%	28%
<b>UPPER WEST SIDE</b>					
NOV03-APR04	17%	16%	18%	19%	14%
MAY03-OCT03	16%	15%	16%	19%	19%

Source: All Citi Habitats' transactions from Nov 2003-April 2004 vs. May-Oct 2003. The data includes over 4,000 buildings, 245 exclusive properties consisting of doorman and non-doorman buildings. Totals over 4,350 rental transactions for the period.

## STUDIOS

**Analysis** We have found that the largest group of studio renters, 48%, are moving to or within the Battery Park City/Financial District, the Upper East Side and the Upper West Side neighborhoods.

**Trend** There has been little shifting in popularity of neighborhoods for studio renters since our last report. Battery Park City/Financial District and the Upper East Side remained unchanged, and the Upper West Side only dropped by one percentage point, maintaining their status as the three most popular neighborhoods for this type of renter. Chelsea experienced an increase from 6% to 10% primarily due to the recent completion of new construction activity in the rental market.

**Perspective** It comes as no surprise that over 46% of all studio renters are moving to only three neighborhoods. Studio renters are most often drawn to neighborhoods like the Upper East Side and Upper West Side, which have the most residential inventory, as well as established conveniences like restaurants, dry cleaners, shopping and other services. In contrast to this, we have found that studio renters are also drawn to the Battery Park City/Financial District, finding greater overall value and greater space than in other neighborhoods. Over 50% of units in new construction and newly converted buildings in these two areas are studios. These downtown buildings typically have high-end finishes like granite kitchens and marble baths, high-tech community rooms and health clubs.

## ONE BEDROOMS

**Analysis** The data collected in our study group indicates that 59% of the one bedrooms rented in our study group were in the Upper East Side, Upper West Side, West Village, and Chelsea neighborhoods.

**Trend** There was a slight shift in neighborhood popularity for one bedroom apartments since our last report. Chelsea experienced a notable increase of 4 percentage points, while the East Village saw a decrease of 3 percentage points. The Upper East Side and West Village increased in popularity by 2 percentage points, while SoHo/ TriBeCa, Murray Hill, and Midtown West decreased by 2 percentage points. Chelsea's increase is due to the new rental construction which entered the market over the last twelve months.

**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 sales market; units are being priced out of the renters' budgets. As the sales market continues to skyrocket, and the supply of rental units in those areas decreases, we can expect to see more people moving to one bedroom rentals on the Upper East Side and Upper West Side, Chelsea and West Village neighborhoods.

## TWO BEDROOMS

**Analysis** As shown in the table, of all two bedroom apartments rented in the sample group, 50% were in the Upper East Side, Upper West Side, and East Village neighborhoods.

**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 apartments this 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 our study group, 64% were in the Upper East Side, Upper West Side, West Village and Battery Park City/Financial District neighborhoods.

**Trend** There was some notable shifting in popularity of different neighborhoods for three bedroom apartments since our last report. Battery Park City experienced an increase of 7 percentage points and SoHo/TriBeCa saw an increase of 3 percentage points, while Gramercy/Flatiron and the Upper East Side experienced a decrease of 4 percentage points in three bedroom renters.

**Perspective** The Upper East Side and Upper West Side have traditionally been the locations with the greatest supply of three bedroom apartments. Renters seeking these larger residences 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.



Upper West Side  
465 Columbus Ave.

Upper West Side  
222 West 72nd St.

Upper East Side  
400 East 84th Street

Upper East Side  
400 East 76th Street

Midtown West  
346 West 57th St.

<b>CITI HABITATS</b> Corporate Headquarters 250 Park Avenue South Residential Sales HQ	
<b>CITI HABITATS</b> RELOCATION	
	<b>CITI HABITATS</b> Marketing Group

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

Midtown East  
937 Second Avenue

Murray Hill Sales  
30 East 33rd Street

Murray Hill  
206 East 38th Street

Chelsea  
155 Seventh Ave.

Gramercy/Flatiron  
27 East 22nd Street

West Village  
114 Perry Street

Gramercy/Flatiron  
32 East 22nd Street

East Village  
37 Third Avenue

SoHo  
62 Greene Street

Greenwich Village  
1 Great Jones Street

Financial District  
100 John Street

*No matter  
 where your needs lie,  
 Citi Habitats is there.  
 With **18** offices citywide,  
 and over **800**  
 licensed professionals  
 and staff, we've got  
 the City covered!*

# Rental prices

The following graphs illustrate the average rents for studio, one bedroom, two bedroom, and three bedroom apartments in Manhattan's 11 different neighborhoods for the current report period compared to those of the last report. Beneath each graph, the average rental price per square foot for all neighborhoods is compared for these two periods.

## STUDIOS

**Analysis** The highest priced studios were found in the four neighborhoods of SoHo/ TriBeCa, Battery Park City/Financial District, Chelsea and the West Village. The average rental price for studio apartments in these neighborhoods exceeded the overall average rental price for studios in Manhattan, which was \$1,676.

**Trend** The overall average rental price for studio apartments in Manhattan increased since the last report from \$1,625 to \$1,676. Notable changes occurred in SoHo/TriBeCa, where studios increased 12.7% in rents, and in the West Village, which experienced an increase of 15.2%. Meanwhile, the rental rates of studios on the Upper West Side decreased by 6.1%, as well as Midtown East and Midtown West.

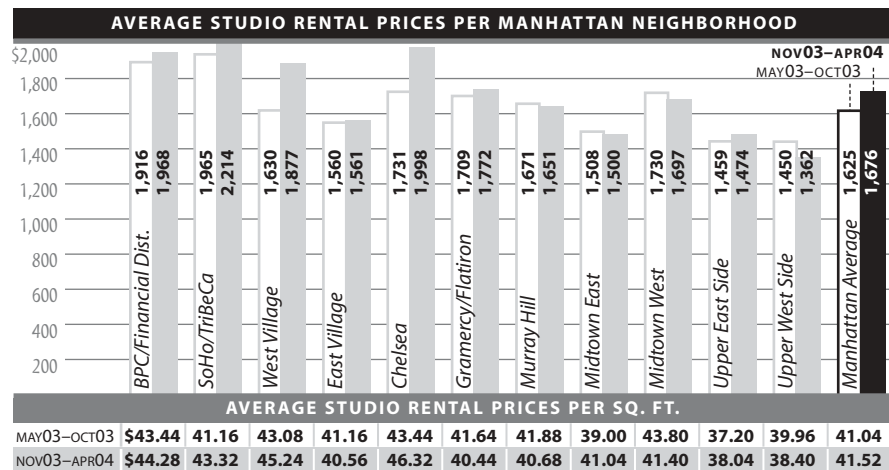
**Perspective** In our last report, we noted that the market for studios had found its bottom and we predicted that studio prices would increase. Considering the studio unit type is the second largest portion of the rental market, we project continued rental rate increases, and the result will be a positive impact on the entire rental market.

## ONE BEDROOMS

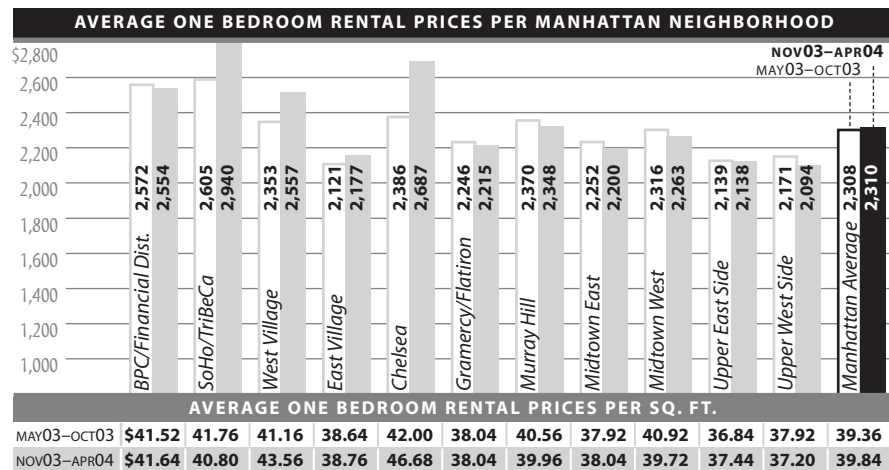
**Analysis** The highest priced one bedroom apartments in Manhattan were in SoHo/TriBeCa, Battery Park City/ Financial District, Chelsea, and the West Village neighborhoods. The average rental price for one bedroom apartments in these neighborhoods exceeded the overall average rental price for one bedrooms in Manhattan, which was \$2,310.

**Trend** Overall, the average rental price for one bedroom apartments has seen remarkable increases. There was a significant increase in the prices of apartments in SoHo/ TriBeCa (12.9%), Chelsea (12.6%), and the West Village (8.6%) neighborhoods when compared to last report.

**Perspective** Since one bedrooms make up the majority of the rental inventory in the marketplace, an increase in their price indicates a healthy economy and an overall strong rental market. Not surprisingly, SoHo/TriBeCa, Chelsea, and the West Village have experienced the most significant increases. These neighborhoods are some of the most desirable in the entire city and renters are typically willing to pay a premium to live



Source: All Citi Habitats' transactions in May-Oct 2003 vs. Nov 2003-April 2004. This sampling of 4,000 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. Totals over 4,350 rental transactions for the period.



Source: All Citi Habitats' transactions in May-Oct 2003 vs. Nov 2003-April 2004. This sampling of 4,000 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. Totals over 4,350 rental transactions for the period.

within their borders. Furthermore, we can expect that as the job market accelerates, we will likely see an even greater price increase in one bedrooms.

## TWO BEDROOMS

**Analysis** *The highest priced two bedroom apartments in Manhattan were in SoHo/TriBeCa, Chelsea, and the West Village neighborhoods. The average rental price for two bedroom apartments in these neighborhoods exceeded the overall average rental price for two bedrooms in Manhattan, which was \$3,393.*

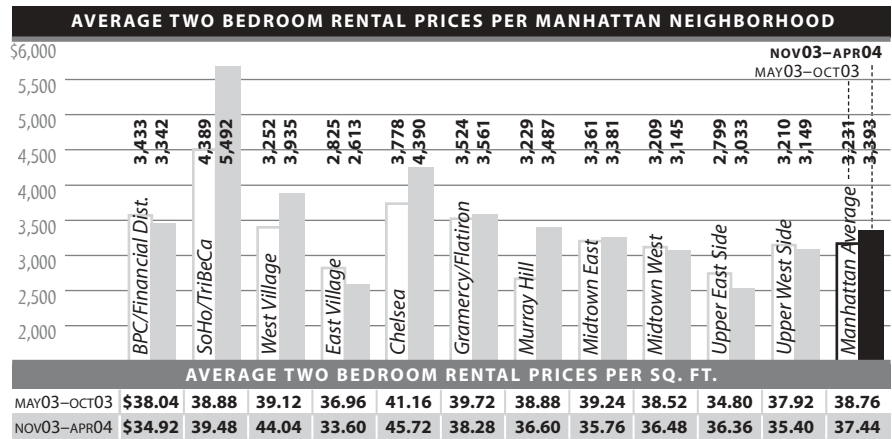
**Trend** The average rental rate for two bedroom apartments have increased, from \$3,231 to \$3,393 (5%). The greatest change in two bedroom rents occurred in SoHo/TriBeCa, increasing 25.1%; the West Village, increasing 21%; and Chelsea, which increased by 12%. These areas have been the driving force behind the strong rental market throughout Manhattan.

**Perspective** According to our reports, two bedroom apartments experienced a healthy increase in overall average price. This is most likely linked to the large influx of renters with small families and who share two bedroom apartments. In addition, the two bedroom market has been affected by new construction which has brought high-end apartments to the market. This overall trend points to a slight increase over the coming reporting period.

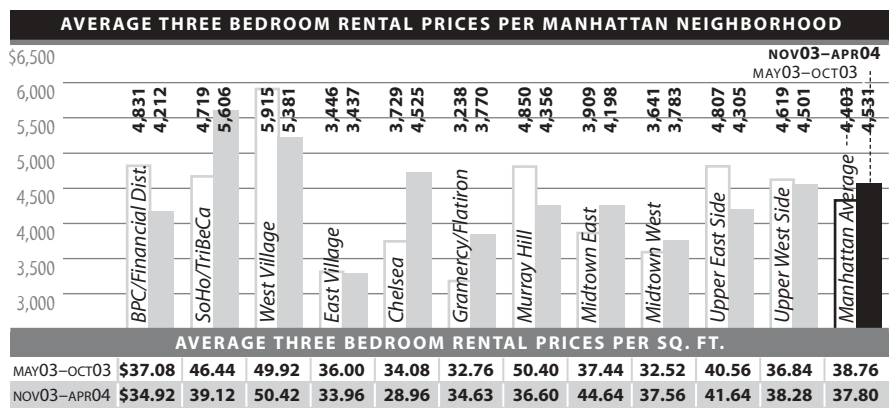
## THREE BEDROOMS

**Analysis** *The highest priced three bedroom apartments were located in Battery Park City/Financial District, SoHo/TriBeCa, and the West Village, all priced above the average overall rental price of \$4,531. The lowest priced three bedrooms were found in the East Village, Gramercy/Flatiron and Midtown West, where rents were well below the overall average.*

**Trend** The three bedroom market has increased from \$4,403 to \$4,531 (2.9%). Areas experiencing significant changes were Chelsea, which increased by 21%; Gramercy/Flatiron, up by 16.42%; SoHo/TriBeCa, up by 18.8%; and Battery Park City/Financial District, down by 12.8%.



Source: All Citi Habitats' transactions in May-Oct 2003 vs. Nov 2003-April 2004. This sampling of 4,000 buildings and over 245 exclusive properties includes doorman and non-doorman buildings. Two bedroom square footage used is 1,050 square feet. Totals over 4,350 rental transactions for the period.



Source: All Citi Habitats' transactions in May-Oct 2003 vs. Nov 2003-April 2004. This sampling of 4,000 buildings and over 245 exclusive properties includes doorman and non-doorman buildings. Three bedroom square footage used is 1,350 square feet. Totals over 4,350 rental transactions for the period.

**Perspective** The overall increase in prices for apartments in the high-end three bedroom market can best be linked to the inflated sales market. Many families who have sold their residences, or are waiting to buy in the red hot condo market, have chosen to rent larger apartments in Chelsea, West Village, and SoHo/TriBeCa, 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 continue to rise at an even rate as well.

### 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

EFFECTIVE RENT BY MANHATTAN NEIGHBORHOOD				
Studios	NO INCENTIVES	FREE RENT + OP	FREE RENT ONLY	OP ONLY
BPC/Fin. District	\$1,819	\$1,968	\$1,964	\$1,997
SoHo/TriBeCa	2,898	N/A*	N/A*	2,079
West Village	1,891	N/A*	N/A*	1,998
East Village	1,534	N/A*	N/A*	1,705
Chelsea	1,881	2,190	3,752	2,068
Gramercy/Flatiron	1,740	N/A*	N/A*	1,917
Murray Hill	1,573	N/A*	1,700	1,796
Midtown East	1,478	N/A*	1,163	1,623
Midtown West	1,600	1,953	1,953	1,778
Upper East Side	1,469	2,018	1,715	1,483
Upper West Side	1,353	1,800	1,800	1,408
One Bedrooms	NO INCENTIVES	FREE RENT + OP	FREE RENT ONLY	OP ONLY
BPC/Fin. District	\$2,654	\$2,521	\$2,521	\$2,528
SoHo/TriBeCa	3,215	N/A*	1,450	2,510
West Village	2,485	3,008	2,716	2,910
East Village	2,179	2,875	2,875	2,173
Chelsea	2,717	2,855	3,012	2,630
Gramercy/Flatiron	2,187	3,700	2,618	2,245
Murray Hill	2,294	2,946	2,504	2,407
Midtown East	2,058	3,240	2,670	2,413
Midtown West	2,072	2,635	2,591	2,408
Upper East Side	2,120	2,779	2,778	2,143
Upper West Side	1,019	2,793	2,672	2,473
Two Bedrooms	NO INCENTIVES	FREE RENT + OP	FREE RENT ONLY	OP ONLY
BPC/Fin. District	\$3,549	\$3,518	\$3,518	\$3,306
SoHo/TriBeCa	5,562	N/A*	N/A*	2,975
West Village	3,719	N/A*	N/A*	4,703
East Village	2,601	2,495	3,248	2,565
Chelsea	4,275	N/A*	3,895	4,691
Gramercy/Flatiron	3,611	N/A*	N/A*	3,416
Murray Hill	3,374	4,558	4,277	3,506
Midtown East	3,100	N/A*	4,495	3,612
Midtown West	4,150	3,401	3,533	3,437
Upper East Side	3,019	3,585	3,354	3,049
Upper West Side	3,027	2,783	3,012	3,547

Source: All Citi Habitats' transactions from November 2003 through April 2004. Includes over 4,350 transactions. \* Sample group for this neighborhood too small to attain accurate average.

The table to the left illustrates the different effective rents for studios, one bedrooms and two bedrooms in the various neighborhoods throughout Manhattan. Effective rent is the annual rent minus the concessions offered. In Manhattan's complicated real estate market, this table normalizes the actual and effective rental rates offering an apples-to-apples comparison of the market conditions in a concession market.

**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. We are experiencing a trend where concessions are decreasing once again because of the strong rental market in Manhattan. Increasing prices and decreasing vacancies are the impetus for the reduction in landlord concessions. 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 8.33% 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. 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 is 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.

► Continued from p.10

*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	\$1,426	\$1,996	\$2,726	\$3,818
Average Rent	\$1,676	\$2,310	\$3,393	\$4,531

Source: All Citi Habitats' website visitors at www.citi-habitats.com from November 2003 through April 2004.

**Analysis** Based on web rental leads versus overall average rents, people were willing to pay 17% more in rent for studios than their initial web searches indicated. For one bedrooms, they were willing to pay 16% more than they initially searched for. For two bedrooms, they were willing to pay 25% more, and for three bedrooms, prospective renters were willing to pay 19% more than they had initially searched for.

**Trend** The difference in what renters are willing to spend versus what they initially expected to spend narrowed in comparison to our previous report. In the case of one bedrooms, the difference between average expected rent and actual rent dropped by 7%. The difference between two bedroom apartments dropped 4% while three bedrooms dropped by 7%.

**Perspective** Using the data collected from www.citihabitats.com as an indicator of average expected rents, we can determine that the average person searches for property that is approximately 19% less expensive than the overall actual average rent. This leads us to believe that in the current market, renters are still very cost conscious. Most are looking for bargains and the best possible value, thinking that the market is softer than it really is. However, the difference between expected and actual rent has decreased from a 25% difference since our last report.

Continued from p.11

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 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, 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

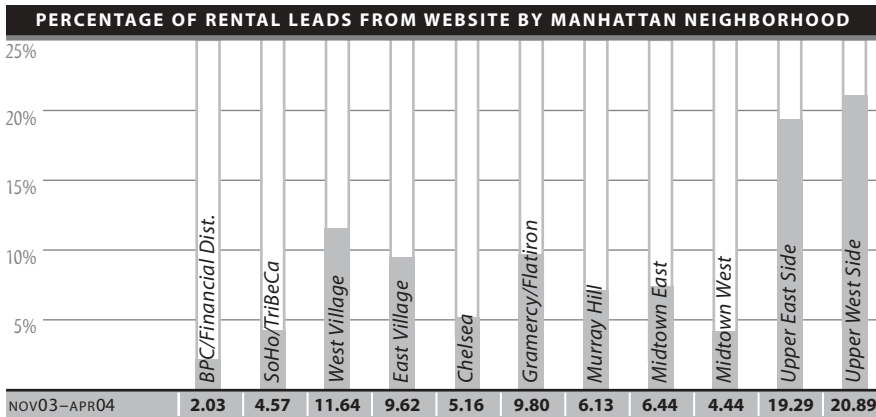
floor plans, all of which have helped steer the real estate market towards e-real estate. These tools are highly instrumental in helping apartment seekers weed out unwanted apartments, making the broker's job more efficient.

Despite the clear advantages of searching for an apartment on the web, the Internet will never make the need for a knowledgeable broker guiding clients 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 November 2003 through April 2004.



Visit our ground breaking website, [www.citihabitats.com](http://www.citihabitats.com).





**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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