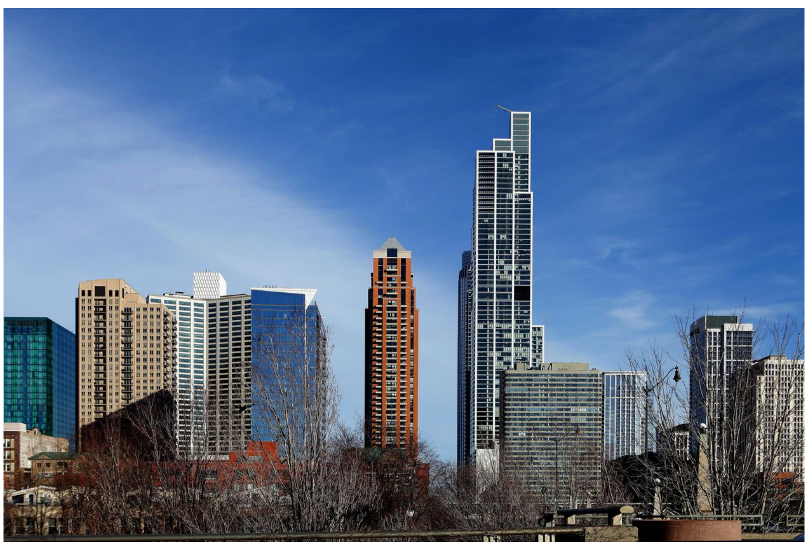
https://www.wsj.com/articles/coronavirus-is-sending-luxury-rental-markets-on-a-rollercoaster-ride-11591287680

HOMES

Coronavirus is Sending Luxury Rental Markets on a Rollercoaster Ride

The pandemic is affecting the leasing landscape in cities like Chicago, New York and Seattle in different ways



Chicago's NEMA, a new 76-story luxury tower.

PHOTO: RAYMOND BOYD/GETTY IMAGES

By Katy McLaughlin and Candace Taylor
June 4, 2020 12:21 pm ET

Scott Zawitz and Luis Gonzalez already lived in a downtown Chicago rental, but had their eye on their dream home: A $14,900-a-month, four-bedroom spread on the 72nd floor of NEMA Chicago, a new 76-story luxury tower overlooking the city's Grant Park.

Then the new coronavirus hit, and in April, Mr. Zawitz was able to negotiate both a discount and two months free, yielding a $12,742-a-month rent on a two-year lease. They moved in April 20.

Scott Zawitz and Luis Gonzalez negotiated a rent discount and two months free on their three-bedroom apartment in NEMA.

PHOTO: SCOTT ZAWITZ

"The deal was too enticing," said Mr. Zawitz, a 47-year-old furniture-liquidation company owner.

With the pandemic roiling real estate, strange things are happening to luxury-rental landlords and tenants. In some cities hit hard and early by the virus, such as Seattle, tenants are finding they have to move even faster to snap up upscale homes, while in others, such as Los Angeles, concessions are jumping. New lease signings have plummeted in New York, but agents in Miami say demand for luxury apartments is high.

To try to make sense of it, we dug into the data and details in major U.S. cities. RealPage, a provider of technology and analytics to the rental industry, analyzed the top 25% most expensive apartments in the most upscale buildings in these markets for list prices and concessions. Rental Beast, which currently collects data on eight million rental units, including "mom and pop"-owned buildings, examined gross rents and how many people are searching online for luxury apartments. We spoke to CEOs whose companies own thousands of units around the country, developers launching new projects, property managers, real-estate agents, landlords and tenants. Here's what we learned.

206 East 20th Street, a Manhattan townhouse for rent asking $28,000 a month. New leases in April in the city declined by 70.9% compared with a year earlier.

PHOTO: WARBURG REALTY

New York: The big freeze

New York's April rental statistics reflect a fragment of the tragedy that has played out at the U.S. epicenter of the Covid-19 crisis. New leases in Manhattan declined by 70.9% in April compared with the year prior, according to a Douglas Elliman report prepared by Miller Samuel Real Estate Appraisers & Consultants.

Since mid-March, "nothing is really moving at all" in New York's market, said Bill Kowalczuk, an agent with Warburg Realty. Per states rules, in-person apartment showings have been banned since late March.

Despite the challenges, New York rents appear to be increasing—median rental prices on new leases are up 4.9% in Manhattan and 14.4% in Brooklyn since last year, according to the Elliman report. But that is a statistical illusion due to the small number of new leases signed this year, said Jonathan Miller, the report's author. In addition, the data doesn't capture discounts that landlords are offering to encourage tenants to remain in their units, Mr. Miller said.

A model apartment at the Dime in Brooklyn, which is under construction.

PHOTO: ALEXANDER SEVERIN ARCHITECTURAL PHOTOGRAPHY

Mara and Danny Kofoed left their Brooklyn one-bedroom apartment for Indiana and may not return.

PHOTO: MELISSA HOPE

While rent reductions and generous concessions are not part of the New York story yet, tales from real-estate agents and New Yorkers themselves appear to presage a wave of fresh inventory that will hit the market when the city finally unfreezes.

Karla and Matt Fernandes-Vogel never planned to leave New York City, but picked up with their twin 11-year-old boys and fled for their Hamptons house in mid-March. In late May, they put their three-bedroom West Village co-op on the rental market for $12,500 and plan to spend the year in Brazil, where Ms. Fernandes-Vogel grew up.

Mara and Danny Kofoed, co-owners of a relationship coaching business called “About Love,” left their $2,436-a-month Brooklyn one-bedroom in March for a family-owned house in Michigan City, Ind.

"New York is our home," said Ms. Kofoed, 43, but the city feels unsafe right now because she has an autoimmune condition. They are not sure when—or if—they will return to the city, and are considering attempting to break their lease or find a subletter, she said.

In addition to the homes of New Yorkers who have temporarily left the city, "you're going to see more property that would typically be for sale for rent" as would-be sellers look for renters instead, said Jeremy Stein, an agent with Sotheby's International Realty in Manhattan.

New inventory is also coming to market. Sam Charney, principal of New York developer the Charney Companies, launched rentals in mid-May in The Dime, a 177-unit luxury building in Williamsburg, a hip area of Brooklyn. Mr. Charney said prices—from about $2,700 to $5,600—haven't changed at all from the precrisis plan. Mr. Charney said that the building will simply take longer to fill than it would in normal times.

The home of Karla and Matt Fernandes-Vogel.

PHOTO: YOO JEAN HAN/SOTHEBY'S INTERNATIONAL REALTY

SHARE YOUR THOUGHTS

If you're about to renew your lease, or sign a new one, have you tried to use the current climate to negotiate a lower effective monthly rent? What did you ask for and did it work?

Others insiders believe the statistics point to an inevitable drop in luxury rental prices.

"Once agents can show apartments again and there's an uptick in leasing activity, you're going to see rents fall," said Mr. Miller.

Compared with the deep freeze caused by Covid-19, real-estate agents said, the looting of Manhattan stores in the wake of protests over the death of George Floyd is likely to have a relatively small impact on the city's rental market. The civil unrest is likely to be temporary, agents predicted, and affects not just New York but cities all over the country. "It's not going to chase people out of New York," said Manhattan real-estate agent Donna Olshan. "The pandemic is the more worrisome thing" for the health of New York City's rental market.

This San Francisco home was rented, sight unseen, for $15,000 a month.

PHOTO: ERIC BAIRD/RELISTO

San Francisco: Work from home, wherever rent is cheaper

In San Francisco, a number of technology companies—most notably Twitter —are allowing their employees to work from home, even if that home is out of state. This has led to a drop in rental demand, said Eric Baird, co-founder of Relisto, a leasing property management and brokerage firm. Mr. Baird has told landlord clients to expect rents to come down by at least 10% for the next year.

"The market is in free fall," said Janan New, executive director of the San Francisco Apartment Association, a trade group for landlords. Rents have fallen by about 10% across the city since early March and there are an unusual number of vacancies, Ms. New said.

The interior of the $15,000 sight-unseen rental.

PHOTO: ERIC BAIRD/RELISTO

Many high-rise buildings are increasing incentives for new leases: For example, 33 Tehama, a luxury tower that offers an art installation and butler service to tenants, advertised one month of free rent during the 2018 lease-up period. Now, its website says up to two months of free rent are available on some units.

Luxury single-family homes costing $10,000 and up are holding steady, said several property managers who declined to be quoted, citing what they perceive to be rising anti-landlord sentiment in the city. Mr. Baird said that in March and April his firm rented out two homes, one at $13,000 and one at $15,000, to relocating executives who leased them sight unseen.

An apartment in The Sinclair in Chicago. Monthly rent for a three-bedroom penthouse in the building has dropped from $8,517 to $7,909.

PHOTO: JIM TSCHETTER

Chicago: A cheaper welcome mat

Chicago's top buildings rarely offer concessions in the spring, said Ericka Rios, director of leasing at the Downtown Apartment Company, which finds tenants for 192 downtown high-rises. However, in new buildings, like Messrs. Zawitz and Gonzalez's home, concessions have been uncharacteristically generous.

"For new leases, I have seen one month or two months free on a 14- to 15-month lease, and three months free for an 18- to 24-month lease. It's very unusual," said Ms. Rios.

Chicago's luxury-rental segment is relatively healthy, according to both Rental Beast and RealPage data: Rents and concessions are roughly flat compared with last year. But tall—and super-tall—buildings in "lease up," in which owners of new buildings seek their first renters, are motivated to make special deals.

The Sinclair in Chicago.

PHOTO: CONNOR STEINKAMP

Steve Fifield, chief executive of the Fifield Companies, a Chicago-based real-estate company, said when the virus hit, his company was in the final stages of lease-up at 727 West Madison, a 45-story, 492-unit apartment tower in the West Loop that opened last year. Rents range from $1,800 for a studio to $9,000 for a penthouse.

Mr. Fifield said his company is eschewing the practice of offering new tenants a month of free rent, and instead simply lowering the monthly rent by an equivalent amount on some units—roughly 8% to 10%. “Renters are not dumb” and can do the math, he said.

Ben Creamer, managing broker of Downtown Apartment Company, said they have seen little immediate impact from the civil unrest roiling Chicago. “We haven’t heard from any clients adjusting their moves or anything like that. People continue to contact us looking to move downtown as well,” he said.

This apartment in Atlanta was left generating no rental income after a tenant canceled the lease at the last minute.

PHOTO: VIRTUANCE

Atlanta & Houston: Film and oil industries hurting

In Atlanta, luxury apartment rents are down and the percentage of luxury units offering concessions has risen from 14.8% a year ago to 23.1% at the end of April this year, according to RealPage. But that is small potatoes compared with what’s happened to properties that target the state’s nearly $10 billion film industry.

Carol Cahill, founder of Above the Line Properties, which specializes in film-industry rentals, said that in the 12 months before March, her company signed roughly 200 leases. Nearly 95% of her customers are film-industry workers, from crew members paying $1,500 a month for rentals to directors and movie stars who book $50,000-a-month estates.

"Since March 15, the entire business absolutely disappeared in about a 14-day period," said Ms. Cahill. Her 150-property portfolio is now largely sitting empty.

Camden Post Oak in Houston.

PHOTO: CAMDEN PROPERTY TRUST

An apartment in Camden Post Oak, in Houston.

PHOTO: CAMDEN PROPERTY TRUST

Ric Campo is CEO and chairman of Camden Property Trust, based in Houston, which owns 164 properties in 14 cities. Though Atlanta's film industry niche is hurting, the wider market is fairly healthy: Atlanta is one of the company's strongest markets right now, with high occupancy and low delinquencies. Even so, at the company's luxury property in Buckhead, Camden Paces, Camden has scrapped an average of 3.6% annual rent increases. Now, most tenants are offered renewals with no rent increase, Mr. Campo said.

Houston's overall numbers are undramatic, with a slight increase in average rents accompanied by a slight increase in concessions. But Houston's high-end market is narrow: "There's not an ultraluxury rental market here," said Holley Madden, an agent with Compass Real Estate. Ms. Madden said her job involves talking builders and homeowners into putting $5 million and $6 million properties into the rental market so she can find inventory for her clientele, mostly professional athletes. Because of headwinds created by the virus crisis and turmoil in the energy markets, Ms. Madden said she's had better-than-usual luck drumming up inventory.

Camden also owns Camden Post Oak, a downtown Houston building where a two-bedroom costs between $2,800 and $5,000 a month and three-bedrooms go up to $12,500. Rents increased around 2% to 3% last year but won't increase this year, Mr. Campo said.

The Ten Thousand in Los Angeles.

PHOTO: CRESCENT HEIGHTS

Los Angeles: Amenities closed, rents challenged

When Michelle Maccio, a 47-year-old financial adviser and hedge-fund manager, signed a lease on March 1 at Ten Thousand, she did it for the amenities. The rent, at $11,700 a month, was steep for a two-bedroom, she said, but worth it because of the movie theater, pool and game room, gym and conference rooms.

Michelle Maccio asked for a rent reduction after the amenities at Ten Thousand were closed shortly after she moved in.

PHOTO: ADAM MACCIO

Then, on March 16, Ms. Maccio's building shut down all common spaces. Ms. Maccio called management and argued that her rent should be reduced.

"A million percent I only rented this place for the amenities," said Ms. Maccio. Though Crescent Heights, the building's developer and manager, didn't agree to a rent reduction, it did allow Ms. Maccio to break her lease. She is now hunting for a single-family home with a pool. Ms. Maccio was allowed out of her lease without penalty because her lease had begun only two weeks before the shutdown, said Phyllis Nolin, regional asset manager for Crescent Heights. Most amenities are now reopened, she said.

L.A. agents say there is high demand for single-family homes with pools and ample yards, particularly in vacation-like areas such as Malibu. But luxury rental buildings are offering richer concessions, according to RealPage and city rental agents.

At Ten Thousand, the maximum concession before Covid-19 was $5,000 off selected units. Today, the building is offering four to six weeks free on some units. Existing tenants who renew for a year or more are offered the same deals, said Ms. Nolin.

Kofi Nartey, the chief executive of Society Real Estate and Development in Beverly Hills, said that he doesn't expect elite rental markets to be negatively affected by this week's widely reported looting and vandalism in shopping areas including Rodeo Drive in Beverly Hills and the Third Street Promenade in Santa Monica.

"The places at the top of the list will continue to be at the top of the list," even in the short term, said Mr. Nartey. "We have short memories."

Clippership Wharf, a new 284-unit development on the East Boston waterfront.

PHOTO: LENDLEASE

Boston: Varsity blues

Rental Beast licenses its data to over 100 partners, including Facebook Marketplace and Realtor.com, and keeps track of how many searches its listings generate. One troublesome statistic for the Boston market: Searches for rental properties there plummeted by 99% between mid-March and May 20.

"Boston is hurting, because colleges really drive people to move in and out of Boston," said Ishay Grinberg, Rental Beast chief executive. With campus plans in limbo, the Boston market is in a wait-and-see mode.

Haley Cutter, senior vice president of the Live in Luxury Team at Douglas Elliman in Boston, specializes in renting out condo units at buildings including Millennium Place, Millennium Tower, and the Echelon. Most owners are offering a few hundred dollars off a month to new tenants and not increasing rent on existing tenants, she said.

Clippership Wharf, a new 284-unit development on the East Boston waterfront, welcomed its first tenants in August. Now, leasing apartments without being able to show them in person is a challenge, said Warren Loy, vice president at the developer, Lendlease. Nonetheless, the development leased 14 units, sight unseen.

The Continuum in South Beach, Miami.

PHOTO: SPECTRUM REAL ESTATE PHOTOGRAPHY

Miami: Sunny and bright

“Right after the lockdown happened, I would say at the end of March, we had a 20% increase in interest from the Northeast on our website,” said Phil Gutman, president of Brown Harris Stevens Miami.

While many Northeasterners want to rent single-family homes, they also want in on buildings such as Continuum in South Beach, said Mr. Gutman. One-bedrooms start at $5,000 a month and three-bedrooms go up to $30,000 a month. Mr. Gutman said his company has signed 12 leases there since March for tenants coming from New York, Boston, and Connecticut. “They paid very close to list price,” he said.

Though Mr. Gutman’s rosy depiction of Miami luxury rentals may sound hard to believe in this crisis, the statistics underscore the market’s strength. Rents are up and concessions are down, both slightly, compared with last year, according to RealPage’s data.

The balcony of a unit at The Continuum in South Beach, Miami.

PHOTO: SPECTRUM REAL ESTATE PHOTOGRAPHY

Seattle: Same as it ever was

Carlos Moreno, a 48-year-old industrial engineer, relocated in January from El Salvador for a job in Seattle. Just as the Covid-19 crisis was brewing, he felt an urgency to get out of corporate housing and into a house.

In March, he toured properties and found a four-bedroom house in the Magnolia neighborhood asking $6,500 a month. Andrea Jacobi, a property manager with Windermere Property Manager JMW said four parties were interested in the home.

“I was surprised that it wasn’t negotiable,” Mr. Moreno said.

Between April 20 and May 19, Seattle homes that rented for between $4,000 and $6,000 monthly spent 36% fewer days on the market than they did the year prior, according to an analysis by J. Michael Wilson, owner of Windermere Property Management, Seattle. Homes between $6,000 and $7,999 a month moved 73% faster. Prices held steady.

Downtown condos are also getting “multiple offers,” said Ashley Hayes, chief operating officer at Seattle Rental Group. Average luxury rents in Seattle in April were $2,436 a month, up $189 a month compared with last year, according to RealPage.

Carlos Moreno rented this four-bedroom home in Seattle for $6,500 a month.

PHOTO: DAN FARMER

—Additional reporting by Alina Dizik

Corrections & Amplifications

The photo credit Warburg Realty accompanying the photograph of the address 206 E. 20th Street was incorrectly credited as Udor Photography in an earlier version of this story (Corrected on June 4, 2020)