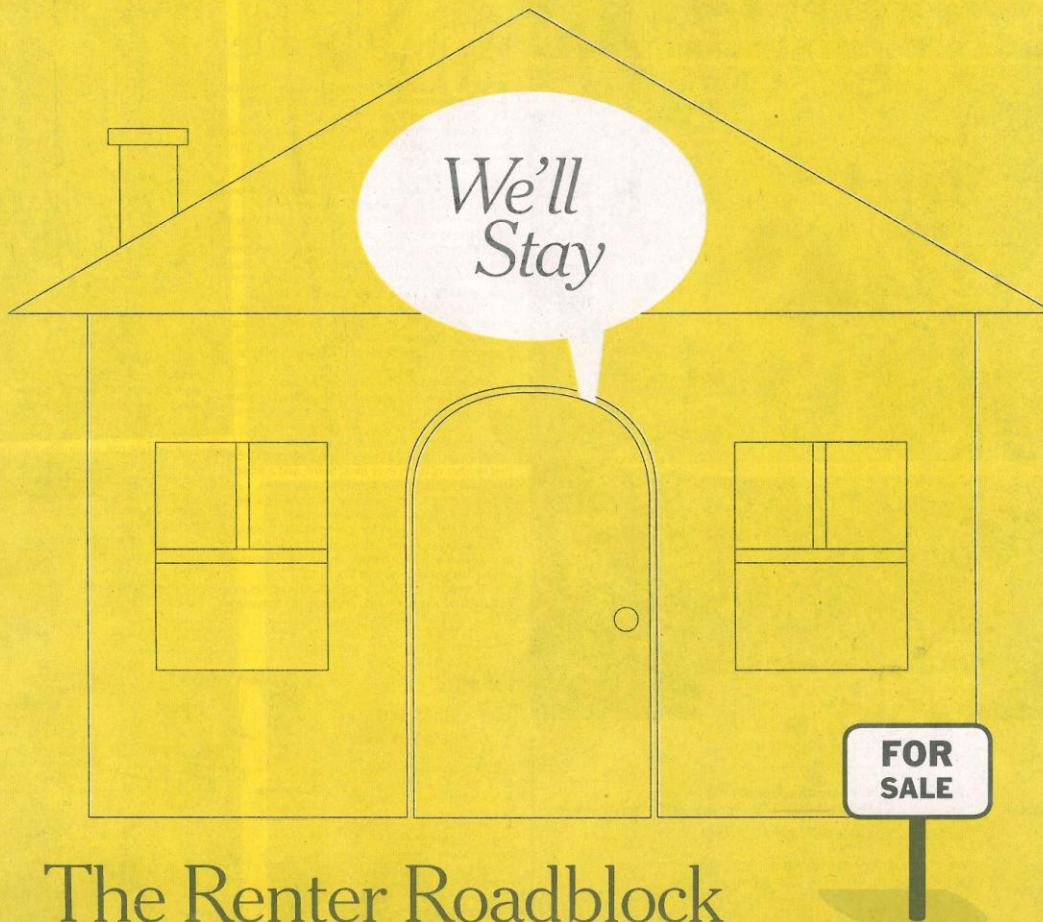


# The New York Times

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## Real Estate

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### The Renter Roadblock

*Renters were a godsend when the market went into hibernation. But now that buyers are stirring, some owners wish their tenants would just go away.*

By HILARY STOUT

It seemed like a smart idea at the time. The apartment was lovely — new construction, three bedrooms, three and a half baths, nearly 2,000 square feet on the Upper East Side. The asking price was \$2.995 million. A year earlier it would have gone fast. But this was early 2009 and the economy was in tatters. Offers were pathetic — the best, \$2.2 million. Forget it, the owners said. We'll rent the place. And so they did. With the approval of the condominium board, a family signed a one-year lease for \$10,500 a month, with an option to renew for a second year. The owner's expenses were covered. The plan was working nicely. Except now the buyer who offered \$2.2 million has come back — this time with an offer of \$2.83 million, all

cash. "They're coming up almost to asking price, but I can't get the renter out," sighed Victoria Shtainer, a senior vice president of Prudential Douglas Elliman, the real estate company. She is holding her breath until April, when she will hear whether the tenants intend to exercise their option to extend the lease for another year. Over the past year or two, many owners who couldn't sell — or didn't dare try — made a similar calculation. Rather than accept an impossibly low offer (if they even had an offer), they decided to rent out their properties. The idea was to cover expenses while waiting for the market to right itself. But in recent months, a number of these accidental landlords have been surprised to find renewed buyer in-

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# When Renters Block The Way

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terest in their properties. The problem is, the renters are happily in place. And that can complicate showings — let alone negotiating an actual deal.

A 4,100-square-foot loft on East 24th Street has sat on the market for nearly two years, despite a drop in price to \$3.995 million in July 2009, from \$5.535 million in April 2008.

In September 2008, the owners put the place up for rent. When their tenant moved out last summer, with no buyers in sight, they decided to rent it again, though this time the best monthly price they could get was a few thousand dollars lower.

Then last fall, shortly after the new tenant moved in, the long dry spell ended and brokers started showing up with prospective buyers in tow. Now a buyer wants to make an offer, said Gina Tramontano, the exclusive agent and a vice president of Halstead Property. But he's saying that he will wait until the fourth quarter of the year — after the lease expires.

Ms. Tramontano said the buyer had not explained his reason for holding back. But she observed, "Once buyers hear there is a tenant, they are always concerned that the tenant won't leave." And that is even though the loft's lease has a rider saying the owner can request that the tenant move out, with two months' notice.

There are other frustrations. Whenever Ms. Tramontano wants to show the apartment, she has to have the permission of the tenants, who are not as motivated as owners to keep it in museum-like shape for viewing. When she arrives with clients, there's often a wife, a baby and a nanny at home — and the corresponding toys and other evidence of family life.

At least she can show the place. A 19th-century seven-bedroom house in New Canaan, Conn., having failed to sell, has been occupied by a renter since Oct. 1. The lease contains a 90-day "show clause," which means the house can't be shown to prospective buyers until July 1 — 90 days before the lease expires.

That was not a problem when prospective buyers were nonexistent. But recently brokers have inquired about the property on behalf of two clients.

"I explained to them that you can buy it with the tenant in place until Oct. 1, and I can give you photographs and detailed information about it," said Mary



Higgins, an associate broker at Halstead, who has the exclusive on the property. "But what I can't do is open the door and let you see it."

"They say, 'Well, if I'm still in the market in a few months...'"

The renewed interest in such properties is one indication that the New York area residential real estate market may be starting to stir. But indicators of the market's health are still mixed. The number of condo and co-op sales in Manhattan was up 8.4 percent in the fourth quarter of 2009 compared with the fourth quarter of 2008, and it was 10.9 percent higher than the number of sales in the third quarter of 2009, according to a report prepared by Miller Samuel, the real estate appraisal firm, for Prudential Douglas Elliman.

But prices are still slipping. The median sales price in the fourth quarter (\$810,000) represented a 4.7 percent drop from the third quarter and was down 10 percent from the fourth quarter of 2008.

Outside of the city, sales numbers for January show signs of life, according to newly released statistics from the New York State Association of Realtors.

In Westchester County, for example, sales of single-family houses jumped 108 percent in January compared with January 2009. The median sale price during

that time rose 12.7 percent. In Suffolk County, the number of sales grew 47.6 percent from January 2009 to January 2010. The median sales price, however slipped 0.8 percent during that time — though that was a vast improvement over the 15.7 percent drop from January 2008 to January 2009.

When renters and prospective buyers are involved, the situation is delicate. No owner or broker interviewed for this article would disclose the identity of renters or ask them if they would speak to a reporter. That's because no one wants to upset a renter. Many owners are hoping their tenants will decline to renew their leases and leave. The last thing an owner wants is to have to pay them off in order to negotiate a deal.

Renting out an apartment may be a good way to keep the cash flowing, but there are roadblocks for owners to consider. Most co-op boards have strict rules about subletting, and some do not allow it at all. Condo boards are typically more lenient. And once renters are in place, it can be difficult to remove them, even if they stop paying rent. In New York City, you cannot evict a tenant without going to court.

In some cases, an ensconced tenant can be an amenity. Megan McGinn, an agent at Erika Associates, a firm that represents buyers in Manhattan and Brooklyn, says many of her prospective buyers are renters, with leases of their own to finish out. These buyers would welcome a tenant in place while they wait for their own leases to be up. "A lot of buyers seem to be coming out of the woodwork right now," she said, adding that many had been inspired by the federal tax credit for first-time buyers.

Some owners are working to turn their renters into buyers.

Robert Gladstone is the sole managing member of Madison Equities, the developer of the Chelsea Modern, a condominium completed on West 18th Street in fall 2008. In the depths of the summer doldrums last year, he did something he had never done before.

With about 30 of the building's 47 units sold and the market looking sluggish, he decided to rent out 12 units for a year or 13 months.

"He believed that once someone moved into the building they would have an impulse to say, 'This feels like home to me' and have the impulse to stay," said Dan Tubb, Chelsea Modern's director of sales.

To nurse that impulse along, Mr. Gladstone moved into the building and invited renters and owners to his apartment for a holiday party.

"We wanted the buyers to interact



PHOTOGRAPHS BY OZIER MUHAMMAD/THE NEW YORK TIMES

**ROMANCING THE RENTERS** At the Chelsea Modern, top and above, a new condo on West 18th Street, renters are being encouraged to become owners by a 10 percent discount. The developer also invited them to a holiday party.

with the renters," Mr. Tubb said.

Pressing further, the developer sent a letter to all the renters in January offering a deal — and doing the math to help them see its appeal. Renters were paying \$6,500 a month for a two-bedroom two-bath apartment with 1,400 square feet of space. Mr. Gladstone offered the unit at a 10 percent discount from the original asking price, which dropped the price tag to \$1.75 million. With 70 percent financing at current rates, the monthly mortgage payments should be about \$6,300 a month. The common charge for the building is about \$1,200 a month.

But the tax savings — including the mortgage interest deduction on the federal income tax and local homeowner tax relief programs — would effectively bring an owner's net monthly payment to about \$5,100, according to the letter. That would mean monthly savings of more than \$1,000.

The numbers seemed to get some attention. Four or five renters have inquired about buying, Mr. Tubb said. (But he would not make any available to speak about their thinking process.)

For some owners, the sudden interest in their properties is creating a tricky new question: Do you really want the renters out, or should you keep them even longer in hopes of getting an even better offer?

Karin Posvar-Pickett, a senior vice president of the Corcoran Group, repre-

sents a client who rejected a couple of lowball offers on his East Side condo and decided to rent his place out instead. Now, with the lease almost up, he has new offers — but he would rather keep the renters.

"He wants to wait another year till the market really improves," Ms. Posvar-Pickett said.

Wladimir Singer put his three-bedroom condo in the East 70s on the market for sale or rent when he moved to Monaco last spring. There were no nibbles from buyers, but the apartment rented fairly easily, with a family signing a one-year lease at \$10,000 a month — almost enough, Mr. Singer said, to cover the mortgage and other costs of carrying the property.

But since the start of the year, three offers have come in, including an all-cash one for \$2.8 million from a major bank shopping for its corporate officers. "We have five to seven parties visiting the apartment each week now," said Mr. Singer, who had not expected to receive any offers before his tenant's lease expired. "Sometime after the holidays the interest spiked."

All that interest has got Mr. Singer thinking: What if he waits even longer? Maybe he could get asking price... or higher. He will learn in April if the tenants want to extend the lease for another year. If they don't, he said, he will seriously consider the offers he has.

Or he might look for another renter.



LEFT, ANGEL FRANCO/THE NEW YORK TIMES; MARILYNN K. YEE/THE NEW YORK TIMES

**WISH YOU WEREN'T HERE** A loft at East 24th Street, left, has a prospective buyer who declines to bid until the tenant's lease is up. An owner in a building in the East 80s, above, has both an offer and a tenant with an option to stay.