



NYC housing market: Renters are opting to renew leases - by Sam Eshaghoff

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Gone are the days when every lease expiration prompted a hunt for a better apartment or a better deal. In a notable shift in the New York City housing market, more and more renters are opting to renew their leases. Here's how high rents change the traditional dynamics, and keep renters in their existing apartments:

It has become costlier than ever to move. When renters move from one apartment to the next, it's not a free and painless transition: broker fees and moving costs are formidable. Since rents are as high as ever, so are broker fees, which are calculated based off the rent amounts. It's not uncommon for broker fees on a rental apartment to exceed \$10,000 in today's market. Moving costs are also cumbersome; aside from hiring a moving company, renters often have to take a day off work to supervise the move. Altogether, these moving costs are significant barriers, so avoiding them is an economical win for renters. Tenants have become wise to this dynamic, and they are increasingly requesting lease terms of two or more years. "Historically 50-60% of leases run for more than a year" says Dan Mordekai, senior agent at active rental brokerage REAL New York. "That number is more like eighty five percent now."

Landlords also would prefer their tenants to stay. Leases signed in the past two years have locked tenants into top-of-the-market rents, and if a tenant is in good standing, a landlord has no reason to let that tenant go. With memories of vacancies during the pandemic still fresh, many building owners are offering modest rent increases — or none at all — on renewals. As a matter of fact, the landlord has some leverage in the renewal transaction today, knowing that tenants want to avoid moving costs and will likely agree to a small increase as the lesser evil. This dynamic is leading to many tenants begrudgingly but decisively agreeing to paying slightly-above-market rent to stay in their current apartment.

Good cause eviction reinforces stickiness. With the recent pass of the Good Cause Eviction Law, landlords effectively must offer tenants renewals, provided the renewal rent is within the rate of inflation. De jure, this keeps some tenants in their apartments who would otherwise have not been offered a renewal. More importantly, since landlords are now at risk of being "stuck" offering renewals to potentially problematic future tenants, landlords are even likelier to induce good tenants to stay.

Fewer children; less reason to move. Another confounding factor is a lower-than-ever birth rate. Household growth and upsizing has been a normal part of historical apartment turnover, but with fewer households needing to upsize, fewer people have reason to leave their apartment in search of more space.

The second order outcome: there is a shortage of apartments for rent. If more people are staying in their apartments, there is less "churn", and there are fewer apartments available for new renters in the market. Naturally, fewer available apartments means that prices for available apartments goes up. High rents got us here in the first place, and now the market is in a positive feedback loop, with moving costs rising further, and even fewer tenants moving in the future.

What was once a tumultuous market of renters moving every year-or-two seems to actually be transforming into a market where people stay in their homes, good tenants are rewarded, and there is some semblance of stability.

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