

# MARIE HANSEN PROPERTIES INTERVIEWED BY TOP BUSINESS PUBLICATION

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Home Improvement

## Most Expensive Rental Markets In America 2005

Sara Clemence

Lately, all of the real estate talk has been about buying, selling and prices that keep going up, up, up.

Conventional wisdom has it that it makes more sense to put your money into equity than into rent, to take a tax break on a mortgage than to line a landlord's pockets. But a substantial portion of the American population--about 30%, according to the U.S. Census Bureau--still rents its housing.

Some renters don't have a nest egg for a down payment or are reluctant to make a real estate commitment. In general, renters--especially apartment dwellers--tend to be less affluent than people who own houses.

But that's certainly not always the case. In some of the most expensive rental markets in the country, wealthy residents are willing to pay thousands of dollars per month for their apartments.

**Dennis R. Hughes**, a senior vice president at **The Corcoran Group**, a division of **Cendant** (nyse: CD - news - people ), in New York City, recently showed a two-bedroom apartment in the Beekman neighborhood that has a library, sterling silver faucets and 24-karat-gold hardware. It is priced at \$17,000--per month.

"Not extraordinary at all," is how Hughes, whose rental listings currently range from \$4,300 to a startling \$27,000 per month, describes the the rarity of such prices.

One of his clients, a high-powered businessman, offered to prepay two years of rent--in cash--for a place that cost \$18,000 per month--a total of more than \$432,000. That made the owner think the place was under-priced, and the deal was called off.

"The luxury end of the market is going very nicely, very strong," Hughes says. "I love this market."

"Strong" isn't the first word that many industry insiders would use to describe the nationwide rental market over the past several years. "Since the recession of 2001, the apartment industry has recovered rather slowly," says **Mark Obrinsky**, chief economist for the National Multi Housing Council, a trade group based in Washington, D.C.

Although the recession officially ended in November of that year, demand for apartments kept dropping for months, even years, Obrinsky says. Vacancy rates only recently came back to the long-term national average of about 5%. And the rentals market hasn't been helped by exceptionally strong real estate sales.

"We had fewer people coming into apartments because of the job market, but the same number of people leaving [to buy homes]," he says.

But the rentals market, like the overall real estate market, varies greatly from region to region and neighborhood to neighborhood. Even in a down apartment market, some cities remained extremely expensive.

See our list of the Most Expensive Rental Markets in America.

To discern the priciest rental markets in the U.S. today, we turned to San Francisco-based real estate research firm **Global Real Analytics**, which publishes the National Real Estate Index. The company collects rent information for studio through three-bedroom units in apartment complexes around the country, and provided its most recent data on

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the metropolitan areas with the highest annual rents per square foot.

Not surprisingly, most of the places that made the top 20 are also those with very high sales prices.

New York topped the list, with an average price of more than \$26 per square foot each year for high-end apartments, in the second quarter of 2005. That's almost twice the national average of \$14.53 per square foot. According to the latest data from local real estate brokerage Citi Habitats, the median rent in Manhattan for a studio apartment is nearly \$1,700 per month. Looking for a little more space? Then crank your budget up to about \$3,000 per month for an average two-bedroom pad.

Our list was dominated by California metro areas, from San Francisco to Los Angeles to Sacramento, and by long-established cities, such as Boston, Washington, D.C., Miami and even Honolulu.

"There are very few housing units available," says **Cheryl Kunimoto**, president of Marie Hansen Properties in Honolulu, where the average annual rent per square foot is \$23.27 for a high-end spread. "If you have a property that is competitively priced, it's not unusual to have ten or more prospective renters."

What makes these markets so pricey? The reasons vary. Metro areas, such as San Francisco, New York and Boston, not only remain desirable to live in, but they are also known in the industry as "barrier-to-entry" cities, Obrinsky says.

"In other words, even though there's demand for a lot more housing units, it's tough to get them built," he explains.

In Manhattan, land is limited and mostly already occupied. In Boston, until recently rent control discouraged new building. And because there are so many historic areas, it takes a relatively long time to get a new building permit.

And then there's California.

"It isn't the fact of being in California per se, but it is those locations in California," Obrinsky says. "San Francisco, Berkeley, Oakland is a bay. There's only so much space that's on and near the bay. Farther inland, it's not cheap housing, but it's less expensive than San Francisco."

Demand, of course, also plays a role in pricing. "There are more companies relocating new employees into the area, and that has had an effect on the rental market," says **Edward Bate**, a real estate agent with American Marketing Systems, in San Francisco.

So if prices are so high in these places, why rent if you can afford to buy? Tenants have some very good reasons, from wanting the money to work for them in other investments to thinking real estate prices are going to decline. Some are frustrated by the pace--and the even higher prices--in the housing market.

"Something comes on the market, and it's not the asking price, it's the starting price," says Deacon Hoy of Citi Habitats in Manhattan. "Suddenly you have 20 people bidding on it. People come here thinking they are going to buy something for \$600,000 or \$700,000. They're finding that what they had in mind is going for \$1.2 million."

And in many cases, real estate prices have climbed so high that they can have a better standard of living as a renter. "A lot of people have purchased property, but I find that a lot of people end up renting, because they've been priced out of the housing market," says Marie Hansen Properties' Kunimoto. "They can get more for their money if they rent. They can afford to live in a \$1 million home, but they can't buy a \$1 million home."

Edward Bate observes that in San Francisco, people who have been priced out of the most popular neighborhoods are buying in outlying areas, such as the Sunset and Richmond Districts. That is driving up purchase prices, but rents are still lagging a little behind--a potential bargain if you're looking to rent.

Then again, when you're talking about the most expensive rental markets in the country, a bargain is defined in relative terms.

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**Video:** Rent In The City

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