

Rental Rate Renegotiations

by Chris Willett



VLADIMIR FILONOV

Price correction is a phrase that's much in vogue, both in real estate and beyond. Analysts are readily reaching for this term to describe the rental property market. Results for February this year show that the average rental rate in the high-end segment stood at \$6,280 per month, said Konstantin Kovalyov, managing partner at Blackwood. This is a 1.7 percent decrease on similar figures for January and overall, a 16 percent drop since the economic crisis began, he added.

"The more expensive an apartment was, the more it lost in value," said Anya Levitov, managing partner at Evans Property Services. "Budget options also went down in dollar-denominated rents, but often less than the ruble lost against the dollar," she added.

Initially, in late fall and winter last year, landlords reacted with panic. Looking

for much-needed financial stability and afraid of losing their tenants, they were ready to offer a discount on rates, said Andrei Sado, director of the elite residential rental department at Penny Lane Realty. This has leveled off. "The market is stabilizing; it's starting to adapt and search for a new equilibrium between supply and demand for rental apartments," he said.

So, does this mean that it is time to talk to your landlord and discuss rental rates and conditions?

The Changing Rental Market

In comparison with sales rates, activity on the rental market has remained relatively constant over the past year. "The market seems to be as active as before the crisis and we are receiving approximately the same number of requests for rental properties as during the same time last year,"

said Levitov. However, rental rates have changed dramatically. "For the first eight months of 2008 the average rental budget of our clients was \$5,600, for the last four months it became \$3,400," she added.

This price correction is due to what Alexei Pashigorev, managing partner at Amdex Estate, described as "classic economic indicators". Supply is up while demand has fallen.

Many investment buyers, who had hoped to use their purchase to make a profit in a rising sales market, have now postponed plans to sell. Instead, they are releasing the properties for medium-term rent, in anticipation of selling when prices rise again.

At the lower end of the market in particular, a number of tenants have decided to move in with relatives or increase the number of people in their apartment. At the same time others further up the market in more expensive accommodation are shifting down a segment to lower priced properties. This cascading effect is contributing to the increase in supply, which is especially pronounced in the elite sector.

Meanwhile, demand in this segment has dropped slightly. "On the one hand, this is linked with the fact that renters, similar to property buyers, have taken up a wait-and-see position, hoping for a significant drop in rates and more flexible conditions," said Kovalyov.

The second cause is a combination of companies and individuals reconsidering their expenditure. While redundancies, pay cuts and canceled bonuses have lowered individuals' incomes, large companies that provide accommodation for their employees are also reconsidering their expenses. "Some companies, both Russian and foreign, are temporarily reducing their search for new accommodation, while others have gradually begun to reduce their workforce,

which is the main target group of the elite rental segment," said Kovalyov.

The result of these trends has affected different segments of the rental market to varying extents. Apartments in the \$1,500 to \$3,000 per month bracket are now around 20 percent less expensive than before the economic downturn. Rates for business-class apartments, from \$3,000 to \$7,000, have fallen by 30 percent and for apartments between \$7,000 and \$15,000 by 40 percent, according to data from Penny Lane.

At the very top, in the luxury segment, which the company considers apartments with rents over \$15,000 per month, it is much more difficult to provide average statistics. Firstly, the supply in this sector of the market is small enough for averages to be heavily influenced by one or two anomalies. Secondly, those offering these apartments for let do not derive their primary income from the rent. Consequently, the whole segment is not completely subject to market rules. While some landlords in this sector are adjusting their prices, as clients are no longer ready to pay rates of \$30,000 and \$40,000, others are opting to take their property off the market, explained Sado at a recent conference on Moscow's residential real estate.

The currency that rents are paid in has also become an important factor. "The instability of the dollar-ruble relationship, which was always a sensitive issue for Russians, adds instability to the real estate market and to the ways landlords act and make their decisions regarding apartment prices," Sado told REC.

"Most landlords are trying to move to dollars or euros, but with long-term contracts it is very difficult," said Levitov. Meanwhile, tenants earning in rubles are looking to escape rents fixed in those currencies so as to avoid real increases in what they pay.

To Negotiate or Not

Knowing whether or not your current rate is in line with market norms is not necessarily simple. The key piece of advice from estate agents is to compare: look online and check to see the rates for apartments of a similar style or in the same area or even the same building. Nevertheless, there are still many variables affecting prices, including how the apartment is furnished and specifics of location.

Levitov explained that she had seen many people who had decided not to move as they had negotiated their rents down following an extensive market search. However, "everything depends on the current rental rate," she said. "If a tenant has been in an apartment over a very long period of time, he or she might not be paying above the current market rate."

Over the year as a whole average rental rates for high-end accommodation have risen only slightly. However, costs rose sharply in August last year. So rates negotiated at the end of last summer are likely to be higher than current levels. Some estate agents believe that any rate agreed over half a year ago is likely to be too high. "If you started renting before August 2008 and have not renegotiated your contract, then you are paying too much," said Sado.

Starting rent negotiations is rarely an enjoyable task. Although tenants are likely to know their landlords best, the city's estate agents do have some overall recommendations. Your landlord should be approached as an equal, said Sado. "It's important to start from the basic demands and wishes of the owner," added Kovalyov.

Using previous research, one of the best ways to set about negotiations is to show the landlord alternative options that cost less, said Pashigorev. "It is important to show that you don't want to leave your

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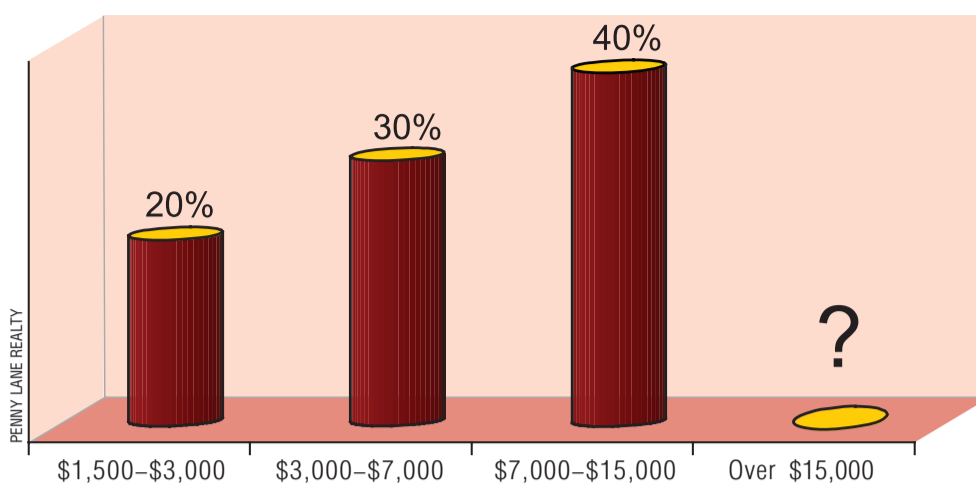
landlord's lovely apartment for somewhere else, but that the price is too high," he added. Other ways to attempt to lower rates could involve offering advanced payment rather than retrospective rent or discussing the currency and exchange rate of the rental payment.

After noticing what was happening in the market, Olivier Harvey, an investor relations specialist in Moscow, spoke to his landlady in preparation for the beginning of the New Year. "I said she could either take a chance with someone new or keep me on for a 20-percent drop in rates," he said. His landlady did not want to negotiate and said he should move out, adding that she had new tenants lined up. "At first I thought it was just to put pressure on me but then I realized that she was serious. So I took about a month and moved out," Harvey said.

Not perturbed, Harvey found a new 50,000-ruble-per-month apartment which was closer to his place of work. "I really wanted to get out of a rent fixed in euros as I saw that the ruble wouldn't hold," he said.

"Some people don't like the hassle of moving but, after you've done it once, it's no big deal. Lots of people are not moving because they're afraid of the incon-

The Average Percentage Decreases of Rental Rates per Segment



viniences," said Harvey, explaining that the cost of hiring a truck, some help and paying a cleaner for both apartments is usually only 5,000 rubles. "I've been here for eight years and moved about five times, twice I've used an agent and three times I've done it on my own."

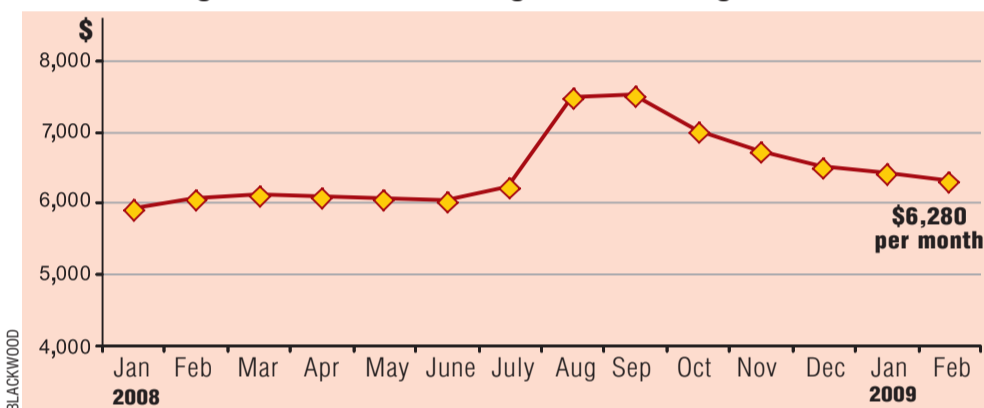
Aiming for a 15 percent reduction on their rent, Joanna, a Moscow expat who declined to give her full name, and her roommates succeeded in lowering it by 10

percent. "If the landlords try to resist, then tenants should remind them that rental prices have fallen everywhere — learn the word for real estate bubble in Russian — and that it would be very easy to find another place for a better price," she said. "Furthermore, it would be very difficult for the landlord to replace tenants at 'pre-crisis' prices," she added.

One of the main problems that arise when renegotiating rental rates is linked to the lease agreement, in particular the termination length. "If the lease allows the tenant to give 30 or 60 days' notice and move out, the tenant might have the upper hand in negotiations," said Levitov. However, this is not always the case, especially at the upper end of the market.

Even if the situation provides tenants with the upper hand, it does not mean they should ignore their contracts. "Just saying 'I'm paying too much' is not a good idea, because once the market changes, the landlord might show up and say 'I'm getting too little' and not honor the contract," said Levitov.

Average Rental Rates for High-End Housing in Moscow



The Moscow Times Real Estate CATALOG

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c.willett@imedia.ru
Copy Editor Adrian Carnegie
Art Director Maria Georgiyevskaya

Advertising Director Elena Cheban
Project Manager Olga Rogova

The Moscow Times Real Estate Catalog is part of Independent Media Sanoma Magazines.

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 Tel: +7 (495) 234 3223
 Fax: +7 (495) 232 6529

Advertising
 Tel: +7 (495) 232 4774
 Fax: +7 (495) 232 1764

Printed in Russia at Media-Pressa, Pravdy Ul., 24 Moscow, Russia, 123137.
 Tel: +7 (499) 257 4404
 Fax: +7 (499) 257 0938
 www.media-pressa.ru
 adm@media-pressa.ru

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www.realestate.themoscowtimes.com

Founder and Publisher: OOO United Press
 Address: 3 Polkovaya Ul., Bldg. 1, Moscow, Russia, 127018.



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