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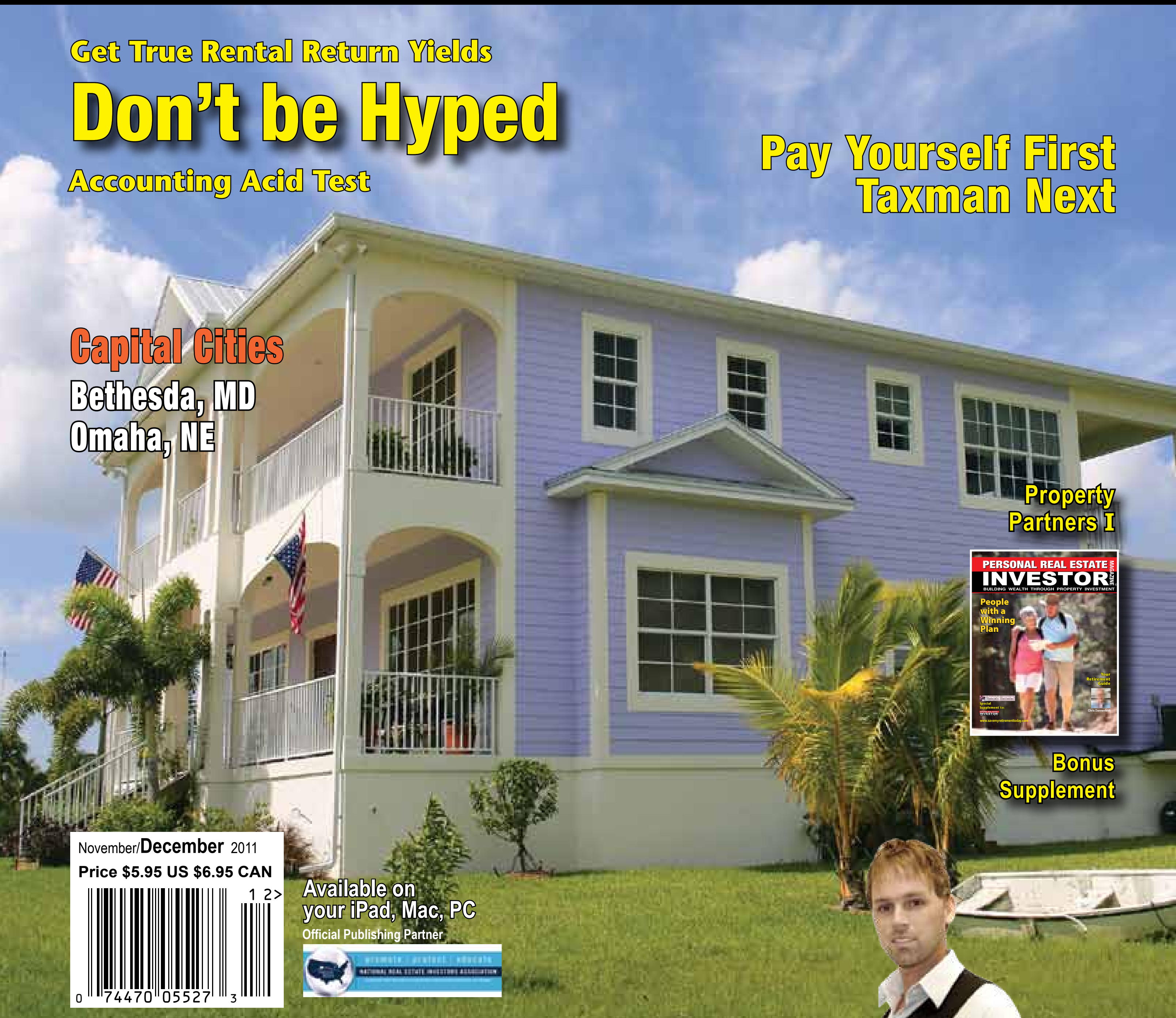

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Trends in Rentals

Look for Community Appeal

By Teresa Bitler

Depending on the local economy, now could be a great time to be a landlord. High foreclosure rates have forced one-time homeowners into the market, increasing demand. In some communities, properties are snatched up within days of being listed. The general reduction in available inventory has also driven up rent rates as much as 10 percent — even more in some cities.

WEAK ECONOMY, SOFT RENT?

In areas with a weaker-than-average economy, though, the opposite may be true. People who are jobless can't rent, resulting in a glut of properties and stagnant rent rates. To make matters worse, some cities overbuilt during the housing boom and now have much more inventory than demand.

As is the case at any time, prospective investors need to research the local community thoroughly and know what they may be getting into.

Wally Charnoff, managing partner of RentRange, an online service that provides reports on rental and vacancy rates, saturation rates, comps, and historic trending, says knowing the local market is essential. "The rental market is very localized. I would say, overall, rents are up, vacancies are down and, in some areas, there's even competition for rentals."

On the other hand, he cautions, there are areas where that's not the case, so you need to research the community and its rental history before you make a purchase. If you do, now is an excellent time to invest because property prices are down and rent rates are up, providing a healthy cash flow.

The Denver area is an example of a market doing exceptionally well, according to John Braswell, president of Full Service Real Estate. "Vacancies are almost nil," he says. "It doesn't matter whether the property is a single-family residence or a one-bedroom apartment. It won't be on the market for more than 30 days."

He attributes the demand to several factors. Foreclosures and more stringent loan qualifications have driven former homeowners into the rental market while many would-be buyers have decided to wait until they are sure the market has bottomed out. Also, he notes that there has been very little new housing construction recently in the Denver area.

"Properties that rented for $1,200 two years ago are now renting for approximately $1,500," he says. "I have walk-ins looking to rent almost every day."

STRONG ECONOMY, RISING RENTS?

Damien Barr, co-founder of KangaRent, is experiencing a similar scenario in southeast Florida, including parts of Palm Beach and Miami. "There's tremendous growth here in people looking for rentals," he says. "A decent rental goes very quickly."

Clean properties in good neighborhoods are receiving multiple offers, and supply is dwindling, but it's still a challenge to rent out "less desirable places." In general, though, Barr reports, rent rates are up by roughly 10 percent. A property that rented for $1,200 a year ago would now go for $1,350. "Rent rates are up, and vacancies are down," he says, summing it up.

Barr anticipates the trend will continue because at some point people who aren't currently paying their mortgage will be forced to leave their homes through foreclosure. The additional renters will cause further demand, which could result in even higher rent rates.

The housing market is definitely influencing the rental market, says Robert Eisenstein of HomeRun Homes. A growing number of people are in foreclosure, have sold their home through short sale, or can't qualify for the necessary financing to purchase a home. Those people still need a place to live and will likely end up renting. In addition, people who can qualify for a home loan or who have the means to make the purchase are deciding, for one reason or another, to rent instead. "More people are renting homes and apartments," he says. "Demand in metropolitan New York has soared."

Eisenstein has also noticed a spike in requests for rent-to-own properties, possibly indicating that while people have been forced temporarily to enter the rental market, they would eventually prefer to own their own home.

But, it's the local economy that seems to be having the biggest impact. Natasha Bowen, vice president of Memphis CashFlow, says that as the economy took a turn for the worse, demand for rentals increased.

"Historically, we have always had a high rental market in Memphis," she says. "It rose higher as the economy worsened, and we've seen a slight increase in rental rates this year."

According to broker John Crowe, Austin always has a strong rental market around the University of Texas, but because the city is actually experiencing job growth, people are moving into the area and looking to rent. Inventory has decreased dramatically and what remains on the market is "ugly," needs major renovation or has a "funky" layout.

In the past, Crowe continues, you could see five properties in the Austin area and then take a few days to make a decision. Not anymore. You have to come with a rental application filled out, and if you like the property, you need to immediately submit it to the landlord. "There's no opportunity to mull it around," he says. "The window of time has really decreased."

Rent rates are up by as much as 20 percent for clean properties in attractive neighborhoods, and Crowe finds tenants are keeping a low profile out of concern that their lease won't be renewed or their rent will go up. Two hundred miles north, the scene is completely different. "The icing looks good, but the cake is spoiled underneath," says broker Mark Kreditor. The former president of the National Association of Residential Property Managers explains that while everything seems good on paper, there's an oversupply of properties.

Kreditor counsels the landlords he works with to upgrade their properties to attract tenants and provide good service to retain them. "Defective properties and defective tenants go hand and hand," he says.

For a while, rent rates may continue to rise in areas that are experiencing a surge in renters and a reduction in rental inventory, but as it becomes more expensive to rent than to make a mortgage payment, watch for renters who can make the shift back to homeownership. At that point, rent rates will plateau or even adjust downward.

Still, a segment of the market will be forced to continue to rent due to a foreclosure in their financial history or bad credit. Or, they may not be able to qualify for a loan under the more stringent requirements. Anyway you look at it, the rental market appears set to remain strong for the unforeseeable future.

Finding Qualified Tenants

There may be more renters in the market now, but are they there because of foreclosure, bankruptcy or default? Finding tenants with good credit can be a challenge. So, what do you look for?

Consider the credit score, but evaluate why it's as low as it is. Was the applicant's home foreclosed on due to job loss? If he has a new, secure job, he could make a good tenant, especially if he eventually wants to purchase your property. An eviction is another story.

Broker Mark Kreditor evaluates applicants based on credit, criminal history and jobs. It's the last matrix that gives him trouble. "The tenant could look good on paper on Monday and lose his job on Tuesday," he says.

That's why John Braswell, president of Full Service Real Estate, looks beyond the credit score. He wants to see renters with ties to the community, such as children in the local schools and family in the area. They have a vested interest in remaining at the property.

A lot of people have decimated credit, says Damien Barr, co-founder of KangaRent, so when he works with someone with a lower credit score, he puts together a package that offers a bigger picture of their situation. The package would include a letter from the applicant's employer indicating job security, personal references and even a written statement from the applicant detailing the circumstances that lowered his credit.

Most applicants won't have a package like that, but by verifying their employment, calling personal references and interviewing them about their current situation, you can obtain the same assurances.

RESOURCES

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