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PROPERTY REPORT

Home Sellers' Pain Is Renters' Gain

 By **NICK TIMIRAOS**
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There's one bright side to the housing crisis: some lower rents.

The regions hardest hit by the housing downturn have seen ailing builders, rising foreclosure rates and a glut of unsold homes, amid other signs of distress. But there are also stories like Laura Evans's.

Renter's Market?

The ongoing housing crunch has helped renters in many markets—and landlords in others. Here's a list of the 10 markets with the highest rents and the 10 with the lowest rents, as of the fourth quarter of 2007.

■ Most Expensive	Avg. Effective Rent*
Metro Area	
New York	\$2,720
San Francisco	1,760
Fairfield County, Conn.	1,760
Boston	1,590
Orange County, Calif.	1,490
Long Island, N.Y.	1,480
San Jose, Calif.	1,470
Northern New Jersey	1,440
Ventura County, Calif.	1,400
Los Angeles	1,380

■ Least Expensive	Avg. Effective Rent*
Metro Area	
Wichita, Kan.	\$470
Oklahoma City	490
Tulsa, Okla.	520
Knoxville, Tenn.	560
Dayton, Ohio	570
Chattanooga, Tenn.	580


The 38-year-old elementary-school teacher moved to Stuart, Fla., from Orlando with her husband and baby last fall. Looking for a rental apartment, they were pleasantly surprised: There were plenty of choices at lower-than-expected prices, thanks to the multitude of owners trying to rent units they couldn't sell.

"When we got down here, we shopped and shopped around," says Ms. Evans, who rented a new 2,200-square-foot, three-bedroom townhouse with a pool and a playground for \$1,150 per month. The owners allowed the couple to move in with their dog, despite a prohibition against pets.

To be sure, rents have continued to rise steadily in many markets. And the housing downturn means that more people are looking for rentals as well, increasing demand. Many would-be buyers have become renters because they can't get a mortgage in today's tight credit environment, or because they're sitting tight in hopes that prices drop further.

But in the regions hit hardest by the subprime crisis, finding a rental apartment is easier and, in some cases, cheaper than it

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was before the crunch. Some homeowners forced out by foreclosure are finding rental deals that are at "discounts of 50% to 70% off what they were paying on their mortgages," says Brenda F. Gerdes, who owns Management Specialists Inc. in Port St. Lucie, Fla.

Vacancies have risen in 29 markets in the fourth quarter of 2007, including Las Vegas, Palm Beach, Memphis, Orange County, Calif., and Orlando, according to Reis Inc., a New York real-estate research firm. Ron Witten, a Dallas-based housing analyst, estimates there are 760,000 vacant condos and homes for sale nationwide beyond what the market could normally carry, in addition to a surplus of 350,000 vacant rental properties.

Behind the trend are tens of thousands of unsold condominium units that are being dumped on markets such as South Florida, Las Vegas and Phoenix. While thousands of single-family homes also are coming on the market, renters prefer condos to houses, which typically have more expensive upkeep. "Tenants have to pick up more of the bills," says Artur Ciesielski, a Phoenix real-estate agent.

Pulled From Market

More than 4,200 units have been pulled out of the for-sale condo market and put into the rental pool in Florida's Palm Beach County alone, according to Mary Grace Breeding, president of McCabe Research & Consulting in Deerfield Beach. Those units include the 216-unit Aventine at Boynton Beach and the 450-unit Mizner Court at Broken Sound in Boca Raton, where rents range from \$975 to \$2,000.

Nor are so-called condo reversions limited to the Sunbelt. In Brooklyn, N.Y., two luxury condo developments converted to rental apartments last spring, including 99 Gold Street, which had begun accepting sales contracts less than a year earlier. Rentals at the 88-unit building range from \$2,000 a month for 700-square-foot studios to \$5,500 for two-bedroom penthouses.

Even healthy markets are beginning to feel downward pressure on rents. A disappointing employment report earlier this month and other signs of a possible recession don't bode well for landlords, since people who lose their jobs will resist paying higher rents or will move in with friends or family. Many displaced homeowners forced out by foreclosures also are doubling up, says Mark Obrinsky, chief economist at the National Multi-Housing Council.

That means that landlords are seeing what should be one of their strongest markets in years weakened by the increasing supply of unsold properties entering the rental market. "Shadow inventory is coming out and competing against us for rentals," says Richard Campo, chief executive of Camden Property Trust, a Houston-based real-estate company that owns 70,000 apartments. That is weakening landlords' pricing power, he says, because homeowners are less concerned about getting full market value.

Teresa Opara tried to sell her three-bedroom home in northeast Phoenix last year but got tripped up by the credit crunch. She



found a buyer

willing to pay her \$310,000 asking price. But at the last minute, she says, the buyer's bank changed the lending requirement. "They just said they needed more down payment," says the 57-year-old accountant. Instead, she's renting the house for \$1,300 a month, which is what she needs to pay her mortgage.

In five struggling markets in Florida, average rents have actually declined since the third quarter. The Tampa-St. Petersburg area saw the largest drop. Average effective rent, which includes free rent and other landlord concessions, was \$784 a month at the end of the fourth quarter, down 0.6 percentage point from the previous quarter, according to Reis. In 38 other markets, including Chicago, Boston and St. Louis, rents rose during the fourth quarter, but by less than the national vacancy growth rate of 0.9%. (The rents cited by Reis are a "blended average rent" from complexes with 20 or more units in California and Arizona and 40 or more units in the rest of the country.)

Savvy renters in struggling markets are playing landlords off each other. Ms. Evans, of Stuart, Fla., says the same day she and her husband leased their apartment for \$1,150 a month, the owner of a bigger home they had looked at called to lower his asking price from \$1,500 to \$1,200. "If he had called earlier, we would have taken it," she says.

Trading Up

Christine Provencio, a 23-year-old legal secretary in Phoenix, considered buying a home with her fiance but instead decided to trade a \$580-per-month one-bedroom for a \$740-a-month two-bedroom in the same four-unit Phoenix home she has lived in for two years.

The news isn't gloomy for landlords everywhere. Rents are rising strongly and vacancies are falling in many markets, particularly those with healthy economies that haven't been affected severely by the carnage in the housing industry. Vacancy rates fell in 47 of the 79 markets tracked by Reis, and average rents saw their largest fourth-quarter increase since 2000.

In San Francisco, rents grew 2.7% in the fourth quarter to \$1,761 a month. New York City, which has the highest average rent in the country -- \$2,717 a month -- saw a 2% rise.

Vacant units fell by 0.9 percentage point to 5.3% in Tacoma, Wash., the biggest drop in the country. In addition, higher rates and fewer financing options for jumbo mortgages -- those bigger than \$417,000 -- have kept vacancy rates high in major cities like New York and Los Angeles, where home buyers typically need jumbo loans.

Slow Correction

Housing experts predict that many would-be home buyers may be forced to rent for years because the relationship between rents and home prices are out of whack. Rents remained at around 5% of home prices throughout much of the postwar period, but beginning in 1996, home-price growth rapidly outpaced rent growth. By the end of 2006, home prices had more than doubled while average rent was up just 48%, driving down the annual rent/price ratio to 3.48%.

A study by one former and two current Federal Reserve economists suggests that home prices will have to fall by 15% over the next five years while rents increase by 4% a year to return that rent/price ratio to normal.

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