

# Renters Can't Escape Housing Crisis

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## Rents rise as foreclosures send owners packing



**Renters:** Brannon and Sarah Cox, with their 4-year-old daughter, Darby, and another child on the way in about two weeks, sold their home in Texas after their loan payment nearly doubled. Now, they're paying in rent what their initial mortgage payment way.

By Mark W. Williams, USA Today

On a chilly night after work last November, Christopher and Jenell Chow relaxed, watching the evening news while their children scampered around their rented two-story stucco home. Someone knocked at the door.

An officer was standing on the doorstep, eviction papers in hand. That's when the Chows learned that the North Las Vegas home they'd rented for two years was in default. They had 30 days to move out and find a new home for their five children, Jenell's live-in mother, their two black Labs and a cat. The stress was severe: Jenell says she suffered a miscarriage the day before they moved out.

"We felt dumbfounded," says Jenell, a stay-at-home mom. She and her husband, an electrician, lost their \$5,000 rental deposit. "We would have been homeless if someone from our church hadn't loaned us money for a deposit on another place. I believe the stress caused my miscarriage."

The most brutal real estate slump in decades is reverberating through the rental market. Renters in properties that are being foreclosed on are being evicted. Homeowners forced into foreclosure are becoming tenants again and driving up rents. And renters not yet ready to buy a home — shut out by stricter lending rules or hoping to buy after prices fall still further — are creating a dynamic shift: Even as real estate is sputtering, the rental market is surging.

Rents, in fact, are accelerating in many markets across the USA. Vacancy rates are down from last year, and average rent is projected to rise 5.3% in 2008, up from a 3.1% increase in 2007, according to the National Association of Realtors. In some cities, rents are climbing at a double-digit clip.

In San Francisco, the median rent rose 14.6%, to \$1,810 a month in the first quarter this year compared with a year earlier, according to an analysis by Newton, Mass.-based Investment Instruments. The median rent in Seattle rose 10.3%, to \$1,211, in the same period. In Washington, D.C., the median rent rose nearly 5%, to \$1,687.

### RISING RENTS

Median rent for the first quarter of 2008 in 12 major metropolitan areas:

**Atlanta:** \$986  
**Austin:** \$907  
**Boston:** \$1,645  
**Chicago:** \$1,355  
**Las Vegas:** \$1,056  
**Los Angeles:** \$1,699  
**Miami:** \$1,368  
**New York:** \$1,751  
**Phoenix:** \$939  
**San Francisco:** \$1,810  
**Seattle:** \$1,211  
**Washington D.C.:** \$1,687  
**All metro areas:** \$1,368

Source: Rentometer

And in 2007, the number of renters in professionally managed apartments leapt by the largest amount since 2000, according to the National Multi Housing Council's March report. That increase was as large as the increase for the previous five years combined. From 2004 through 2006, 1.2 million households joined the ranks of renters, more than making up for the loss in renter households sustained from 2002 to 2004.

"The rental market is now very, very strong," says Allison Atsikhoudas, CEO and co-founder of Investment Instruments, which provides Web-based tools for the real estate industry and tracks rental market rates. "It's stable. The increasing number of foreclosures in the market has definitely increased demand for rentals."

Other hot rental markets include Salt Lake City, Nashville, Philadelphia and Austin, according to the M/PPF YieldStar apartment rankings.

### **High demand, rising rents**

The health of the rental market is critical for several reasons. Rising demand for rentals can spur construction of apartment buildings, a trend that's already occurring in some metro markets. And the need for more rental properties can energize urban development, because higher commuting costs have translated into growing demand for rentals that are near urban employment centers rather than in outlying suburbs.

"In some areas, because the demand for rentals is happening closer to cities and job markets, there will ultimately be demand for new construction," says Peter Chinloy, a real estate professor at American University's Kogod School of Business. "As rents keep rising, there is more demand, although it also means it's harder to find rental units."

Escalating demand also means steeper rents. The median asking rate for rentals has jumped 14%, from \$591 a month during the fourth quarter of 2003 to \$673 a month in 2007, according to the Census Bureau. The national vacancy rate for rental housing was 9.6% in the fourth quarter of 2007, down from 10.2% in the fourth quarter of 2003.

Several factors are driving up demand for rentals:

- **Renters are waiting for home prices to drop.** As they watch real estate prices slide, many renters have decided to wait longer to buy because they think prices have yet to hit bottom. Kevin Merrett, 23, of Fullerton, Calif., has adopted a stance of waiting and continuing to rent while keeping his eyes on the housing market.

"As a renter, it doesn't make sense to buy right now," says Merrett, who handles land acquisitions for an apartment developer. "I can easily survive on my low rent. And I've been closely watching the shifts of the real estate market. I'll continue to wait for the prices to come down enough so that even if the market continues to soften, it will not put me in financial trouble" after a home sale.

- **Renters are finding it harder to buy.** Many renters can't qualify for an affordable mortgage because of stricter lending rules that call for larger down payments and excellent credit. The days of getting a home with no money down or with other unconventional loan structures are gone.

Lenders have turned more cautious for good reason: Foreclosures are up, and each of them costs lenders an estimated \$50,000, on average, in processing fees, liquidation-sale price cuts and other costs, according to the Center for Responsible Lending.

"We've seen demand for rental housing go up," says Mark Obrinsky, chief economist at the National Multi Housing Council. "The ownership side is retrenching, and we're seeing the demand going to the rental side. There's a lot of hesitancy to buy. Others can't get (financing), so they're remaining renters longer."

- **A steep rise in foreclosures.** Foreclosure filings — default notices, auction sale notices and bank repossessions — were reported on 223,651 U.S. properties during February, a 4% drop from the previous month but still a nearly 60% increase from February 2007. One in every 557 U.S. households received a foreclosure filing during the month, according to RealtyTrac.

Brannon Cox, 26, and his wife, Sarah, 27, of Flower Mound, Texas, were living in a small starter home they bought in 2004 for \$125,000 with no money down; 80% of their loan was a two-year adjustable-rate mortgage. Cox, a graphic designer who then brought home about \$2,500 month, soon recognized that his pay wasn't enough to keep up with the escalating mortgage payments. In May 2006, the mortgage rate reset higher.

In addition, the three-bedroom brick home with wood siding and a garage needed major repairs. He and his wife installed new carpet and tile and painted all of the interior. They repaired the garage door. And when the plumbing backed up, Brannon spent hours digging up the rock garden, creating a 6-foot hole, and managed to do the repairs himself.

His wife, a waitress, lost her job. The air conditioning went out, and in a city with sometimes 115-degree heat in the summer, they had to buy new units with credit cards. Soon, they were \$10,000 in debt, and their monthly mortgage bills had ballooned to nearly \$1,900 from \$1,040. They fell two months behind on the mortgage.

Facing foreclosure, they had no choice but to sell the house last year for \$128,000. And, saddled with new debt, a bankruptcy filing and no savings, they moved into a two-bedroom apartment. Their rent is \$1,093 a month — almost exactly the original amount of their mortgage payments.

### **'Makes you sad'**

"We were scared about what apartment we could get with that credit history," says Brannon Cox, who has a 4-year-old daughter and a second child due in May. "Our daughter says she wants to go back to the old house, and that makes you sad. We still go back to birthday parties with her old friends."

Scores of foreclosed homeowners, now stuck with tarnished credit, are finding it harder to get loans as lenders tighten their rules and standards. As more of them become renters, overall demand for rental property rises.

"There's been a big shift, and it's a national trend," says Jeremy Brandt, CEO of 1-800-CashOffer, which connects home sellers with real estate investors. "We're seeing more and more people moving into renting because of foreclosures, and rents are increasing."

That's especially true in metro areas with stable job markets. Signs of the demand abound, and in some areas, the need for rental units is sparking construction of rental apartment buildings — a trend that, over time, could help ease rental prices as the supply of apartments rises. In Dallas, apartment construction is underway, including plans for a 15-story building. A 300-unit apartment complex is planned in San Antonio.

In the meantime, rents continue to rise. In the Seattle area, rents rose 2.1% in the first quarter of 2008 over the previous quarter and nearly 9% since the first quarter of 2007. Vacancies in some neighborhoods are at 3%. The average annual rent increase for all units was \$84 a month, says Tom Cain of Seattle-based Apartment Insights Washington, an apartment-market-research firm.

"The rental market is really healthy," Cain says. "Incentives are going away. Renters are not interested in getting into housing, and the number of foreclosures is going up a bit."

The withering housing market is also extracting an emotional toll, forcing renters out of their homes as landlords go into foreclosure. No hard data exist on how many homeowners who lose homes to foreclosure

are becoming renters. But 18% of foreclosures started in the third quarter of 2007 involved non-owner-occupied homes, according to a study by the Mortgage Bankers Association — a sign that tenants are hardly immune to the housing meltdown.

### **10 days to move out**

Tammy Dayton, 46, of Lewisville, Texas, who works in outside sales, had rented a 2,700-square-foot home for about two years.

One day, a sheriff's deputy came to the door, telling her she'd need to leave because the mortgage wasn't being paid. Once the deputy realized she was a renter and not the owner, she was given 10 days to move out.

"I was totally in a bind," Dayton says. "I didn't know what was going on, and I needed to find another arrangement."

In December, she packed her belongings. Along with her Dalmatian, Target, and black Lab, Samson, she moved into a new home to rent. But Dayton says she hasn't received her rental deposit back.

"I was confused and dumbfounded," she says. "I'd paid my rent month to month. I learned to always be prepared for the unexpected. And this time, I checked out the new place first to be sure it wasn't in default."