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HOME FRONT

The Invasion of the Renters

**Housing Slump Spurs
Rentals and Complaints;
Bikes on the Balcony**

By **BEN CASSELMAN**
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Mark Spector was happy with his new neighborhood. Then the renters started moving in.

In 2004, Mr. Spector and his wife, Deanna, paid \$350,000 for a six-bedroom house in Bridgewater, a new development in Wesley Chapel, Fla., about 25 miles north of Tampa. They moved into their home and looked forward to meeting their neighbors.



Michael C. Weimar

Mark Spector says an increase in renters -- and absentee landlords -- in the Florida subdivision where he and his wife bought a home in 2004 has resulted in unkempt lawns (the home pictured below is a rental), more noise and higher crime rates.

Then Florida's once-feverish housing market started to cool. Investors who'd bought a large percentage of the properties in Bridgewater found they couldn't flip them for a quick profit, and brought in tenants, instead. By last year, Mr. Spector estimates, close to half of the residents in the subdivision of 750-plus homes were renters.

The result, Mr. Spector says: overgrown lawns, drug deals in the park and loud parties in the "frat houses" down the street. "You'll see some driveways with a dozen cars parked in the driveway and on the grass," he says. Concerned homeowners, through the subdivision's community development district, have earmarked about \$30,000 for beefed-up patrols by the sheriff's department.

The developer, Lennar Corp., estimates the number of renters in Bridgewater at about 30%. In an email, Mark Sustana, Lennar's general counsel, said, "We have no evidence that leads us to believe that rentals are the cause of the homeowner concerns."

In another manifestation of the housing slump, thousands of property owners across the country are now renting out homes they cannot sell. As a result, developments and condos that once were largely owner-occupied are filling up with renters who some neighbors say are less engaged in their communities and less concerned about maintenance.

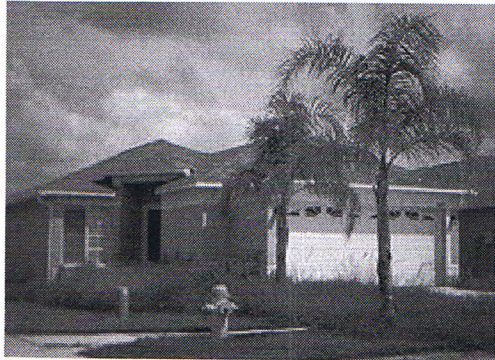
Fearful of declining property values, some homeowner associations are fighting back -- targeting lax landlords and renters with "good neighbor" letters, limiting the number of units that can be

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rented at any one time, and, in some cases, banning investors from buying altogether.



Michael C. Weimar

"I like to know my neighbors," says Lyletta Robinson, who says she has had disputes with some of the tenants in her 18-unit condo complex in Chicago's Woodlawn neighborhood. "I like to know who's coming and going out of our building, and it's difficult to do that with renters."

Of course, plenty of renters cut their grass, take in the garbage cans and turn down the music at 9 p.m. And not all homeowners are model neighbors. Denise Bower, of Community Management, Inc., which manages 122 developments around Portland, Ore., says renters are often more responsive to complaints because they know they run the risk of losing their leases if they don't. "I have more problems with owners, by far," Ms. Bower says. "They get stubborn."

Home ownership in the U.S. has declined slightly since 2004, when a record 69.2% of households owned their homes, to 68.2% in the second quarter of 2007, according to the Census Bureau. More people who stretched to buy homes have returned to the rental ranks, while others, limited by tightening credit, have delayed jumping into the ownership pool. At the same time, after years of existing apartment buildings being converted into condominiums, the trend is reversing; according to Real Capital Analytics, a New York-based research company, "reversions" -- condo buildings that were turned back into rentals -- outstripped condo conversions in the second quarter of 2007, the first time that has happened since the 1980s. In Baltimore, for example, there have been 1,430 reversions since January, 2006, while only 430 rental units have been converted to condos.

In another shift, builders are refocusing their energy on constructing rental properties. Michael Cohen of Boston-based Property and Portfolio Research predicts that in the 54 markets they track around the country, this year will see the largest number of new rental units on the market since 2004, while the number of new condo projects will continue to drop. "Certainly, there is going to be a migration back toward rental," Mr. Cohen says.

The uptick in rentals is greatest where the real-estate boom was strongest: Miami, Phoenix, Las Vegas and other areas where people bought up many of the new homes and condos as investment properties.

For consumers, the increase in the number of rental units has not led to a corresponding drop in rents in most markets. That's because demand for rental units is also growing. Nationally, rents have risen 4% in the past year, according to the Bureau of Labor Statistics. In cities such as Portland, Ore., and San Francisco, where new construction was more restrained during the boom, a flood of new renters has pushed rental prices higher.

But in areas with a glut of new buildings, such as in much of Florida, vacancies are up and rents are down. In West Palm Beach, for example, the average rent was \$1,057 in June, down 5% compared to a year earlier, according to M/PF YieldStar, a research firm. Rents also dropped elsewhere in the state, and were essentially flat in other fast-growing cities such as Las Vegas and Phoenix.

Remote-Control Management

Not all "accidental landlords" are investors. Lindsey McMurren-Riggs says that when she and her husband moved to California last year, she spent six months trying to sell her Salem, Mass., condominium, which she bought for about \$460,000 in 2005, before giving up and putting it on the rental market. "It's not something I really wanted to do, especially from 3,000 miles away," Ms. McMurren-Riggs says.

In fact, about a third of the 54 units in the Salem condo building haven't sold, leaving the developer, RCG LLC, little choice but to market them as rentals. RCG principal Matthew Picarsic says the developer has tried to find renters who might become buyers, and he screens tenants carefully. Owners in the building say the renters haven't caused many problems (although Ms. McMurren-Riggs acknowledges she's received a few noise complaints about her tenants), but some say they are worried about what having too many renters will do to property values.

"There's an anxiety that if a certain number of units are rentals, new buyers won't be as interested in buying," says Mickey Northcutt, an owner in the building. One reason is that many lenders won't give the lowest mortgage rates to buildings with too few owner-occupants. (For example, in most cases Freddie Mac buys mortgages only for buildings with at least 60% owner-occupancy. Individual lenders often have more stringent requirements.)

Some developments have sought to limit the number of renters by requiring owners to register with the condo board before taking on tenants and by limiting the number of rentals permitted. Metropolis, a 498-unit condominium complex in Atlanta, allows 25% of the building to be rented out.

Others are going further. Park Highlands, a planned community in North Las Vegas that expects to eventually total about 15,000 homes, will ban all buyers from renting out their homes in their first year -- a move aimed at blocking, or at least sharply reducing, investor-owners. "You can't buy it with the intention of renting it out," says North Las Vegas Mayor Mike Montandon, who helped broker the deal.

FOR ACCIDENTAL LANDLORDS

Here's some advice for novices from property managers, agents and other experts:

- **Talk to the neighbors:** Make sure they know you'll be renting and encourage them to tell you about any issues that come up. Then check back in from time to time to make sure everything's working out.
- **Know the laws:** State and local governments regulate everything from how many smoke detectors must be installed in a house to how long landlords have to return tenants' security deposits. Failing to know the rules can lead to lawsuits, civil penalties or worse.
- **Keep up with maintenance:** Many owners assume that since a property is a rental, they don't need to worry about routine maintenance. Not so, say experts. Keeping up with repairs will help draw better tenants and will prevent bigger maintenance bills down the line.
- **Study the market:** Rental agents say many landlords set their rents based on their expenses, rather than on what the market will bear. Then they wonder why their units don't rent.
- **Vet prospective tenants:** Credit scores alone aren't enough. Dig into credit reports, verify income and make sure to call references. But make sure not to run afoul of discrimination laws, which bar landlords from rejecting tenants based on age, marital status and other factors.

--Ben Casselman

On the other hand, capping the number of renters allowed in an already established community can prove difficult. Jan Hirsch, an attorney who is president of her Portland, Ore., homeowners association, says her 112-unit complex considered such a cap last year. The proposal sputtered, in part because even current owner-occupants didn't want to give up their ability to rent should they need to do so. "It's a restriction on their right to use the property," Ms. Hirsch says.

Some developments are taking a different approach. When Susan McDonald began seeing an influx of renters in Elk Grove, Calif., just outside of Sacramento, she cofounded a community group, the Franklin Reserve Neighborhood Association. The group writes "good neighbor" letters to problematic tenants and landlords, organizes forums to discuss a variety of issues and holds block parties to encourage residents, both owners and renters, to get to know one another. Local high school students have even cut the grass on unkempt properties. For the most part, the steps

another homeowner wrote. "We're selling."

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