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Homeowners Turn to Renting, Waiting for Market to Recover

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Still having trouble selling your house? More homeowners are deciding to rent out their homes while they wait for the market to recover.

"I had my condo on the market for three months and I didn't have any bites," says Molly Smith, a public relations executive in Newburyport, Massachusetts. "I realized if I was going to sell it, I'd take a big loss."

So the 29-year-old Smith, who wanted a shorter commute to her job, decided to rent out her house and move into a rental herself.



"I was asking \$145,000 and I couldn't afford to go lower, so I decided to rent," she explains.

As the housing market slowly recovers from the biggest collapse since the Great Depression, homeowners are still finding it hard to unload their current residence without suffering a big loss. As a result, they're deciding to hold onto the house but renting it out in hopes of selling later when the market improves.

"With a glut of housing inventory, renting is a common option" says Jessie Keenan, an adjunct professor at the University of Miami who teaches classes on housing.

And the demand for rentals appears to be strong.

"Even with housing prices coming down, they are still too high for some people," says Keenan. "They'd rather rent than buy."

As of March, the latest month for which figures are available, there were 3.74 million unsold existing homes in the US, according to the National Association of Realtors. Though that was down slightly from the month before, the backlog represented a nearly 10-month supply of homes.

"There's what we call a 'shadow market' of homes, condos and townhomes for rent," says Peggy Abkemeier, general manager for Rent.com, an online rental listing service. "Normally those houses would have sold but this has put more rental inventory on the market."

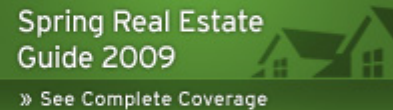
Renting isn't always a perfect solution, however. While Smith says she's avoided a loss from selling her Massachusetts condo, she's still losing money as a landlord.

"The rent I get covers about 80 percent of the condo mortgage," she says. "And I have to pay the mortgage taxes and the condo fee."

Just how long a homeowner can hold out for a better market while renting worries Marla Saret, who rents her one-bedroom condo in the Chicago-area for \$1,550 a month.

Saret says she couldn't sell the home after 400 showings. So she rented out her house and moved into a bigger living space so her brother could live with her.

"The rent I'm charging doesn't cover all my expenses," says Saret. "I recognize I may need to eventually take a loss, but I'm not sure how big of a loss is too big."



"I can last for a year or two more without selling," says Smith. "But after that, I don't know."

People with second homes are also deciding to rent them out while waiting for prices to rise.

"We're renting our two bedroom oceanfront condo in Palm Beach," says Thomas Madden, Chairman and CEO of TransMedia Group.

"The apartment was worth more than \$1 million during the height of the housing market. It's probably lost about 30 percent of its value, which is why I don't want to sell it now. We'll wait until the market recovers."

"The economy is driving many homeowners, particularly second homeowners to rent out," says Denise Fraser, a spokesperson for HomeAway, an online vacation rental marketplace. "That's because they can't sell it at the price they want or are facing foreclosure. They need income so they rent."

High-end homes are also finding renting out an option, says Mary Cassidy, a broker at Bronxville-Ley Real Estate in Westchester County, New York.

"We have several homes worth more than a million on sale and for rent at the same time," says Cassidy. "It's a matter of whichever comes first."

Homeowners who bought during the housing boom find renting nearly the only way to avoid losing their investment says David O'Neil, broker and owner of Century 21 Spindler & O'Neil Associates in North Reading, Massachusetts.

"Many of those who bought five years ago and thought they could sell into a profit can't do that now," says O'Neil.

"They may be able to buy a new home, but they're having to rent out their existing homes." But while renting can buy some time for homeowners, it's not an end to itself says Jim Randel of Randel Real Estate.

"Home buyers remain cautious and property values are still unsettled," says Randel. "With job losses still happening and consumer confidence still shaky, prices could fall even further in some places."

"People still have to determine the valuation of a home," says University of Miami's Keenan. "It's like a stock PE and it's not clear now how to value homes."

Besides waiting to a better time to sell, homeowners have to worry about keeping up their rental property.

"It's not easy being a landlord," says Smith. "I've been pretty much okay with my tenant, but people don't always pay their rent on time," Smith says. "You have to make sure you get back up rent in case your place is vacant for a while."

"My renter is thinking of moving out this summer and I'd have to find someone new," says Saret who rents a condo herself. "I don't really like the idea of having my money tied up in the place. And I may have to put more money into it to fix it up."

But for homeowners needing a robust housing market, renting may be the only way out for now says Rhonda Duffy, a broker at Duffy Realty in Atlanta, Georgia.

"It's smart to weigh the pros and cons of renting with property values declining," says Duffy. "But people who want to keep their exposure to further drops in real estate values at a minimum should rent."