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Why you should ask for lower rent

It's a renter's market, so get ready to negotiate that lease

STORY COMMENTS SCREENER (17)

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CHICAGO (MarketWatch) -- It isn't easy to build up the nerve to ask your landlord for a reduction in rent. But these days having the gumption to renegotiate a lease is paying off as landlords struggle to find and keep tenants with good credit and a history of paying on time.

Ask Mike Haskins, a Raleigh, N.C., resident who recently was able to lower his rent. The vacancy rate had risen in his neighborhood after two other apartment complexes had been built. He knew that the complex in which he was renting wasn't at capacity, and rent for a similar unit on the first floor was set at \$650; his rent was \$750.



"I felt like I had some power," said the 24-year-old.

It took some pushing -- and a threat to take his business elsewhere -- but before long, Haskins made a deal. When he renewed his lease, his rent was \$100 lower.

"It felt like it was the same experience you go through when getting a car. If you agree to the first thing they offer you, it's probably not the best you're going to get," he said.

There are several reasons landlords may be willing to make a deal these days.

Eighty-eight percent of property owners who participated in a recent Rent.com survey said that job losses are contributing to vacancy rates. Fifty percent said would-be tenants can't afford rent or are trying to save, and 45% said that the trend of more people doubling up with roommates is causing units to sit vacant. The survey polled owners representing 3,192 apartment communities throughout the country.

Plus, there's even more inventory to compete with these days because in sluggish housing markets many homeowners rent their homes instead of selling, said Peggy Abkemeier, general manager of Rent.com. And some renters are becoming homeowners as affordability improves and the government entices them with a first-time buyer tax credit.

Even Haskins said the first-time buyer credit has him thinking of testing the waters and becoming a homeowner soon. "For my friends who could go either way -- they weren't sure whether they wanted to get a house or not -- that was a final push," he said.

Landlords respond

In response to vacancies, 68% of landlords said they were lowering rents and 68% also said they were giving one or more months of rent free; 38% said they were reducing deposits; and 18% were offering upgrades or allowing more leniency for breaking leases or changing status, according to the Rent.com survey. Fifteen percent are offering storage or parking at reduced rates, and 8% are relaxing pet policies.

Another survey, from Move Inc., which operates Realtor.com, found that 39% of people would sign a 12-month lease if it came with 2 months of free rent, and 18% would sign for free utilities for two months including water, electricity and gas. Fourteen percent said a free flat screen or LCD television would get them to commit to a lease for a year.

And yet another survey by TransUnion, which screens credit for property-management companies, found that half of property managers are having difficulty locating qualified renters, compared with last year. Eighty-one percent are concerned they won't find reliable tenants for the rest of 2009.

Lessors of real estate are earning significantly less so far this year, according to Sageworks, a financial information company. Profits are falling, company research shows, and empty units cost money to maintain.

"As a renter you tend to have a little leverage these days," said Dan Saklad, COO of Sageworks. "Sometimes it's as simple as asking -- a lot of times people just don't ask. If you've been renting for a while you're a known tenant and you're in good standing... they probably will be willing to work with you a little bit."

Still, rental markets do vary, so before you start negotiating make sure you know your market's dynamics.

In California's East Contra Costa area, rentals are scarce because there is so much competition between former homeowners who lost their homes in foreclosure, said real-estate agent Lynne Palmer.

In fact, there are some markets where the monthly cost of renting is more than the cost of buying a similar place -- before, that is, taking into consideration property taxes and insurance, and assuming a 30-year fixed-rate mortgage and a down payment of 20% -- according to ZipRealty research. To name a few where buying is less expensive than renting: Queen Creek, Ariz., Antioch, Calif., Homestead and Kissimmee, Fla., and Henderson, Nev.

"They're usually areas that have been really hit by foreclosures," as well as short sales, said Leslie Tyler, vice president of ZipRealty. "And buying those properties has its own challenges."

Make a deal

Below are some tips on how to bargain in today's rental market:

- Know what average rents are in your area, and have an idea of the volume of vacancies in the complex and neighborhood.
- If you're renegotiating, remind the landlord that by renewing your lease they won't need to find another tenant -- saving them in marketing costs, possible missed rent they'd suffer and any costs of painting and making other improvements required to turn over the property.
- Consider a one-bedroom apartment, if that suits your needs. As many renters double up in two- and three-bedroom apartments, the market might have an extra inventory of one-bedroom units -- allowing for a better bargain, Abkemeier said.
- Even with damaged credit, it's not impossible to secure a rental. But you may have to provide a larger security deposit or provide a co-signer on the lease. ■