

Metro Phoenix rental homes dominate housing market Foreclosures, recession spur surprise market shift

by Catherine Reagor -
The Arizona Republic May 18, 2011

Metro Phoenix has long been known for its supply of affordable houses, easy to buy and resell. Now, the rental market is dominating the region's housing sector, something many real-estate experts and agents didn't expect.

Rental homes of all shapes and sizes are in much higher demand across the Valley than they were five years ago. Rents are rising, and rental properties - from foreclosure houses to huge apartment complexes - are drawing investors big and small, local and international.

The housing crash is fueling a lot of the demand from tenants. Many former homeowners, who lost houses to foreclosure or walked away because they owed so much more than their houses were worth, have become new renters - and the most coveted by landlords. Another growing group of renters is made up of younger, more mobile workers who have little interest in buying houses because they have seen others take big losses on homes and don't know how long they might have jobs in metro Phoenix.

Enticing both groups is the growing number of still-affordable high-end rental homes and apartments across the Valley.

Demand for investment properties has set off a buying frenzy for both homes and apartments in the region. With interest rates so low, investors usually get a better rate of return off a rental property than if they put their money somewhere else.

Metro Phoenix foreclosure homes are selling at a record pace, and almost half are being turned into rentals by their new owners.

Apartment complexes in areas with good schools, shopping centers and freeways are sparking bidding wars among investors. During the past few months, sales of apartment complexes have been closing almost daily.

New census data confirms metro Phoenix's status as a growing rental market. The region's homeownership rate has fallen back to 1997 levels, and in some cities, including Phoenix, 30 to 40 percent of all homes occupied are rentals.

"The shift from homeownership to rentals in the Valley will continue as homeownership shrinks more," said Michael Traylor, director of the Arizona Housing Department. "Unfortunately, I think we are going to see a lot less home buying opportunities due to higher down-payment requirements."

Homes

Nearly half of all foreclosure and short-sale homes purchased in metro Phoenix during the past year are now rentals, according to industry estimates and property records.

The most popular homes for investor landlords have at least three bedrooms and are located in family-oriented neighborhoods.

Caroline Thompson and her family rent a three-bedroom, two-bath home in northeast Phoenix for \$950 a month.

"We have an excellent landlord," she said. "For Christmas, he sent us an edible food arrangement. We take excellent care of his house, as if it were our own."

Thompson said that, in the future, she may consider buying a home, but she is three years from finishing her degree in mental-health counseling and will owe the government a lot for student loans. She also doesn't know where she will find a job or how much she will be able to earn.

A family paying \$3,000 a month for a mortgage on a four-bedroom house in a nice Peoria neighborhood can move next door and pay \$2,000 in rent for the same house, according to Payam Raouf, owner of Glendale-based Arizona Property Management and Investments.

"There are great renters out there now, the cream of the crop for landlords," he said. "People who earn good money are losing homes to foreclosure, and they want to rent houses as nice as the ones they owned."

More than 80 percent of independent landlords say they would rent to someone who had lost a home in foreclosure if the tenant had decent credit, according to a new survey by the National Association of Independent Landlords.

A growing trend is for investors to purchase bargain foreclosure homes and then rent them back to the former owners so they don't have to move. As a result, they end up paying much less a month for rent than their mortgage.

Monthly payments on rental homes are difficult to track overall for the region because of so many individual owners. However, most landlords and real-estate agents say rental rates on houses have been steadily climbing since 2009.

Apartments

Metro Phoenix apartment rents are slowly climbing as more units fill up.

The average rent on an apartment in the Valley is \$736, according to California-based RealFacts. That's up \$12 from a year ago. Only about 8 percent of the region's apartments are empty, down from 10 percent in 2010.

Luke Consuelo rents a one-bedroom apartment in north Scottsdale "I don't have a family. I don't want to buy and worry about taking care of a house," he said. "Renting is great. Plus, one of the big benefits of buying is the tax deduction for mortgage interest, and the powers that be in Washington, D.C., are looking at getting rid of that."

Renters such as Consuelo who don't want to buy or can't afford rental houses are enticing investors to purchase more metro-Phoenix apartment complexes.

The amount of money investors spent on Valley apartment complexes during the first three months of this year was up 50 percent from the same period last year, real-estate brokers report.

Commercial-realty brokerage NAI Horizon, which tracks the sales of complexes with 100 units or more, reports that investors spent \$293.3 million on large complexes in the first three months of this year. During the first quarter of 2009, only three apartment complexes with more than 100 units sold in metro Phoenix for a total of \$60 million.

Karl Abert, an apartment broker with Phoenix's Grubb & Ellis, said investors both big and small are now bidding on apartment complexes in "desirable locations." He said investors from Canada and China are the most active international buyers of Phoenix-area apartments now.

Scottsdale, Tempe, east and downtown Phoenix, and Chandler are some of the region's most popular spots for apartments with investors.

Last month, one Phoenix apartment complex drew 15 offers.

"I think rents will flatten out this summer and then increase in September again," Abert said.

A long-term shift

The fact that many people are losing homes to foreclosure means a longer-term shift toward rentals. Most of those former homeowners won't be able to buy for at least a few years because of the hits on their credit ratings, unless they pay cash. Some former homeowners don't want to buy, even if they could.

"I have no plans on purchasing another house anytime soon," said Debra Ledford, who "walked away" from a home in Maricopa that she owed \$304,000 on. It was valued at \$120,000. "I'm scared of what might happen again. I lost a great deal of money."

Now, Ledford rents a home in Ahwatukee Foothills for herself and her four children.

Foreclosures stay on a person's credit for five to seven years, meaning she couldn't buy for at least that long. But, after record foreclosures, some lenders may change their requirement to spur more homebuying.

"A lot of people have lost their faith in the economy and their desire to own a home," said Jay Butler, director of realty studies at Arizona State University. "People used to buy because they had careers. Now, more people rent because they have jobs they aren't sure about."

With expectations of slow housing appreciation in metro Phoenix during the next few years, some people don't want to buy and potentially lose money on a house.

"The 'graduate from school, get married and buy a home' model doesn't work for everyone anymore," said Trailor, the Arizona housing official. "For someone who knows they may only be working for a Phoenix company for 12 to 24 months, I don't think buying a home makes sense."