

Landlords get busy

After a lull in the rental market, tenants are filling vacant units and prices are rising again

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By Kristen Green, Globe Correspondent | July 29, 2007

After spending nearly a year shopping for a larger home to replace their Brookline condo, Nicole and Kevin Forrest came to a surprising conclusion about where they should consider living next: a rental unit.

"Given the current housing market, it's not that crazy of an idea to rent as opposed to buy," Kevin Forrest said.

With rising interest rates and a soft real estate market with an uncertain future scaring off would-be homebuyers, Greater Boston's lackluster rental market has finally rebounded.

"Tenants are not having as many options and landlords are not having to reduce their rents anymore," said Nancy McCreary, manager of the Hammond Residential GMAC Real Estate headquarters in Brookline. She said the rental market began to turn upward this year when demand for apartments increased.

Real estate analysts said the tepid housing market is responsible. Two reports released last week showed that home sales in Massachusetts dropped as much as 8 percent in June, with prices also falling, though not as much. The housing market's uncertainty, particularly the many forecasts that predict sales will weaken for possibly another year, has kept many would-be buyers on the sidelines: They don't want to buy a house today that will be worth less in a year.

So with more people back in the rental market, apartment deals are fewer and fewer; tenants are back to paying full broker fees, rather than having the landlord pay part or all of that expense. Rents are also up slightly from a year ago. And the days of a free month's rent and other perks such as flat-screen TVs are long gone.

"No one's giving away automobiles to rent their apartments," cracked Robert Imperato, president of Boston Realty Associates, which manages 500 units in the Boston area.

These days, newcomers to town are doing something practically unheard of in recent years -- renting in neighborhoods where they hope to eventually own, in order to keep an eye on the market for a year or two.

"When the sales market was hot, they tended to buy right then and there," McCreary said. "They felt confident they could turn right around and sell it if it didn't work out."

But now those folks are not sure where the bottom of the housing market is and they don't want to stretch to pay a mortgage on a property that might not appreciate, said Sam Chandan, chief economist for the New York-based real estate research firm Reis Inc. A few years ago, "people might have said to themselves, I really do need to buy right now," Chandan said. "The urgency has dissipated significantly."

For the most part, rent increases have been modest. Reis found that Boston rents rose 4.6 percent last year from \$1,497 to \$1,566. Rents in the second quarter of 2007, which ended in June, were averaging \$1,582.

McCreary said landlords who have tried to raise prices by as much as 20 percent to make up for losses in recent years have been burned, even in high-demand locations like Back Bay and Beacon Hill, where the inventory quickly shrank. Landlords who "jumped the gun and tried to get too aggressive" had to lower their rents, she said.

Boston long had a tight rental market, but it eased in recent years, with slightly higher vacancy rates. Indeed, in the early part of the decade, rents even went down or were up only marginally, and Boston was a renters' market for people in the \$2,500 price range.

"You would have had a gazillion options to choose from," said Ishay Grinberg, president of the Somerville-based Grand Central Apartments, an online apartment-finding service.

Though vacancies continue to rise, renters are no longer in control. Vacancies in professionally managed properties with 40 or more units in Boston rose to 5.6 percent in the second quarter of 2007 from 4.7 percent last year, according

to Reis. Chandan said it will rise to 6 percent by the end of the year with the projected completion of more than 5,600 new units. Still, even at those levels Boston's remains one of the most competitive rental markets in the country. And Torto Wheaton Research, an independent real estate and advisory firm based in Boston, calculated a 4.1 percent vacancy rate so far this year in professionally managed buildings with five or more units.

The first part of the market to rebound, McCreary said, was the high end, where rents run \$4,500 to \$10,000 a month. She attributes that to homeowners' inability to sell their \$1.5 million to \$2 million homes and deciding to rent them out instead. "The very people that were not buying them, rented them," McCreary said.

Rentals in the \$3,000-a-month range are renting well, too. Joe Cunningham, a sales agent for Gibson Sotheby's International Realty in the South End, said many of his clients are telling him they've decided to rent while they're waiting to see what the market's going to do.

"People know they have to spend a little more to get what they want and be comfortable in their apartment for one to two years," he said.

He said a two-bedroom, two-bathroom unit on a desirable block in the South End that rented for \$2,250 a month in 2003 went back on the market earlier this month for \$2,800. It was rented at full price within 10 days, he said.

"There seem to be enough people renting," said Cunningham's rental division manager, Andrea Whitcomb. "It's not like landlords have to start worrying about having vacant units."

The demand for luxury is also a new reality of the changed rental market.

"We'll never go back to the kind of shabby, tired rental property that used to rent, that people would be grateful to rent," said McCreary.

Renters want remodeled kitchens with granite countertops and high-end appliances, hardwood floors, and other amenities. She said some are willing to sacrifice a bit on location to get a more luxurious place.

"Rather than take something really tired in Beacon Hill or Back Bay, they'd rather have something nicer and newer in Charlestown," she said.

Imperato said the change in standards benefits all renters, regardless of their price point. Landlords are taking better care of their properties -- replacing appliances and refinishing the floors -- to attract better tenants. "Landlords are still working for good tenants," he said.

Newton landlords Cathy and Lenny Nyren realized that they needed to renovate the kitchen of their brick duplex when the previous tenant left a couple months ago. They spent \$8,500 gutting the kitchen, putting in new cabinets, countertops and composite floors.

Even so, they didn't think they could justify raising the \$1,580 rent on the two-bedroom, one-bath apartment. "We wanted to keep it competitive and get it rented," Lenny said.

Looking online at craigslist, the couple noticed apartments were taking a while to rent. "Places weren't going as quickly as they were five years ago," Cathy said. "I think people expect more than they did before."

But after the kitchen remodel, their duplex rented within three weeks.

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