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John Baker manages leased properties, including this one in south Escondido.

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Renters market: Competition, 'doubling up' cited as reasons for shift locally

By: ANN PERRY - Staff Writer

NORTH COUNTY ---- Renters have had it rough for the last five years, essentially relegated to basement living during the region's real estate boom.

Because rentals were in short supply, landlords routinely raised their rates, for an average increase of 21 percent since 2002, according to one study of major apartment complexes. Contributing to the supply shortage, some property owners removed tenants to convert apartments to condominiums ---- and meet the demand from property buyers.

Over the last six months, however, the rental market has shifted, giving renters more choices and greater opportunity to bargain for lower rents. Market experts cite a variety of reasons for the shift, from competition created by unsold homes that have been turned into rentals to families doubling up on housing to save money.

In San Diego County, vacancy rates among large rental complexes jumped from 1.84 percent to 4.54 percent during the six-month period from October through March 31, the highest six-month rate since 1995, according to a MarketPointe Realty Advisors' Rental Trends survey, which supplies information to rental property owners.

In line with the countywide trend, the vacancy rate in North County has more than doubled in the last five years, to 4.52 percent. However, the vacancy rate in some North County communities, including Escondido, San Marcos, Fallbrook and Bonsall, spiked in the last six months, to 7.59 percent.

Russ Valone, president and chief executive officer of MarketPointe, said he doesn't view the recent vacancy increase as significant, given that supply has been extremely tight for years. "I don't think you could read a

whole lot into this," he said.

Renting out homes versus flipping

Other industry experts and watchers see it differently, however.

John Baker, associate property manager with J. Ray Baker Co. in Escondido, said that he has fielded an increasing number of calls from people wanting to rent out homes and condos that they own. "A lot of people bought condos with the intent to flip them," he said. Now that real estate sales in the region have slowed, they are looking to rent them out. "They figure they'll ride out the market," he said.

However, Baker said, he often has to counsel property owners not to ask too much because there are plenty of competing rentals on the market.

Just as stores put products on sale when demand is low, landlords in the San Diego area are doing the same, said Robert Griswold, real estate manager, author of "Property Management for Dummies" and a syndicated tenant/landlord columnist. "We're seeing specials and concessions in the market."

The signs are literally everywhere, as apartment complexes display banners and notices advertising discounts on deposits and first month's rent. And some "for sale" signs in front of single-family homes have recently been altered to read "for rent."

One Escondido landlord with a two-bedroom unit and monthly rent of \$1,025 recently posted a newspaper advertisement offering a free 27-inch TV to a tenant with good credit who signed a one-year lease. Another online advertiser offered a free iPod Nano, in addition to two months free for a two-bedroom apartment, for a renter who could move in within seven days.

Rents could fall, eventually

"When vacancy goes up, prices usually fall," said Louis Galuppo, director of residential real estate with the Burnham-Moore Center for Real Estate at the University of San Diego and a real estate land-use attorney in San Marcos.

Rents are not likely to drop quickly, however. For one thing, many tenants have leases for six months or a year, locking in rental prices for a period. And while landlords might offer one-time incentives that, in effect, lower the cost of renting ---- such as half off the first month's rent ---- they are reluctant to cut the stated going rate. It's a type of "price protection," Valone said.

In the last five years, average asking apartment rents in North County have risen by almost 20 percent, from \$1,101 in 2002 to \$1,329 this year, according to MarketPointe.

The cost to rent a home is generally greater than renting an apartment, and can vary widely according to size and neighborhood, but the most modest start at about \$1,200 a month, Baker said.

What's behind vacancies

Real estate experts say that several factors are behind the increase in vacancies:

- Doubling up. Griswold, the real estate manager and columnist, regularly hears from landlords and tenants. He said that the market is in a consolidating phase, when renters double up and young adults delay moving out of their parents' homes. "Look at the high price of everything ---- gas, housing, everything," he said.
- Population exodus. For nine out of the last 10 years, more people moved out of San Diego County than

moved in from other parts of the country, according to the Census Bureau, an exodus that experts attribute to the high cost of housing here. The number of those leaving totaled 42,034 for the year ended July 1, the eighth highest among all U.S. counties.

(However, the county's population grew by 4,845 that year, because of births and international immigration.)

Riverside County is a popular destination, as well as Arizona and Nevada.

Griswold, who manages property in Las Vegas, says the influx of San Diego County residents is due to simple economics. He said that would-be homeowners are willing to take a 10 percent decrease in wages if they can pay 50 percent less for housing. Griswold said that the typical home in Las Vegas costs about \$300,000, compared with more than \$550,000 in the San Diego area.

- Condo conversions. During the go-go years for real estate, many owners of apartment complexes converted the apartments into condominiums to sell to home buyers. As the real estate market has slowed, some of these conversions have reverted to apartments, Valone said. "The cooling housing market has had an impact on the rental market," he said.

- Retreat by speculators. During the peak of the real estate market, people bought homes with the intent to flip them for a quick profit or to hold them as a long-term investment, believing that they could always sell at a profit, Baker said. But now some investors who try to sell can't get the prices they want ---- or need to pay off their mortgages.

Baker said that when he speaks with owners of homes they plan to lease, he has "to talk them down" from the rents they hope to charge. He said last month that he tried to work with one woman but couldn't because she wanted to charge a higher rent than was realistic. The amount he suggested "wouldn't cover her costs," he said. "That sank her ship."

Griswold said he spoke with a woman in Temecula who owns three rental properties, two of them vacant. He advised her to sell one or two immediately "before the house of cards collapses."

- Extended military deployments. Some vacancies in the Oceanside and Fallbrook area can be attributed to repeated and extended deployments of Marines, Valone said. "Johnny's gone off to Iraq, so Harriet and the two kids go back to Arkansas," he said.

While landlords could be feeling a pinch, renters should have more choices. Griswold recommends that renters look beyond the usual apartment complexes to single-family homes. "If you want the most bang for your buck, you're better off with a private owner," he said.

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