

REAL ESTATE

Vacancies give renters room to negotiate

L.A. County's vacancy rate rose to 5.3% in the first quarter. As more Southland apartments go empty, property owners are more willing to negotiate lease details.
By Lauren Beale

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On a recent bright afternoon in Redondo Beach, rent signs baked in the sun outside half the small stucco apartment buildings along the stretch of Beryl Street between Flagler and Harkness lanes.

"I've never seen it this saturated with rentals," said property manager Vickie Callahan, who owns a three-unit and a four-unit building in the area. "It's very scary."

It's a scene playing out across the Southland. As the struggling economy and high unemployment take their toll, vacancies are rising, rents are falling and property owners are increasingly willing to negotiate lease details.

"It's definitely a renter's market," said Delores Conway, director of the Casden Real Estate Economics Forecast at the USC Lusk Center for Real Estate.

The last time vacancy rates were this high in Los Angeles County was in the early 1990s, when they hit 5%.

The rate climbed to 5.3% in the first quarter from 3.8% in the first quarter of 2008, said Victor Calanog, director of research for Reis Inc., a real estate research company in New York that tracks 90% of buildings countywide with 15 or more units -- more than 750,000 apartments. In contrast, vacancies had been hovering between 2% and 3% for the last decade.

"Households are choosing to double up, triple up," Calanog said, and the consolidation has left rentals standing empty.

Not only are adult children moving back to live with parents, but "we're seeing the reverse, parents living with adult children," USC's Conway said. "To bring in income, they'll rent out the mother's house."

Changes in renter behavior were the subject of a Rent.com white paper released in late June. Users of the website are increasingly using the search term "roommates" and looking for two-bedroom units instead of one to share the expenses, Rent.com President Peggy Abkemeier said. The listing service also found that users are spending more time searching online for apartments and are more interested in basic amenities than luxuries.

The first quarter saw the largest rent decline in a decade for Los Angeles County, Reis' Calanog said. Effective rents, those that take concessions into account, fell 1.7% in the first quarter of this year from the fourth quarter of 2008, while asking rents dropped 1%.

Although rental houses aren't tracked the way apartment buildings are, area landlords are resetting rents in response to the leaner market.

Laguna Beach-based rental owner and manager Steve Dexter has had to lower the prices on several of his six rental houses to keep them occupied. He recently dropped the rent \$255 a month -- to \$1,195 from \$1,450 -- on a 1,450-square-foot, four-bedroom, two-bathroom home in San Bernardino.

"In the Riverside-San Bernardino area we're seeing \$100 to \$150 rent drops from \$1,200 to \$1,400 a month in some pretty good neighborhoods," he said.

It's a delicate dance. Dexter said he had cut the rent for people he liked, but he was inclined to reject potential tenants who were too aggressive.

"I don't want them," he said, "if they start asking for giveaways upfront."

Potential tenants who do want to negotiate might spend some time getting to know the landlord first.

For their part, some landlords are playing the "concession game" by adjusting the length of the lease to keep units

occupied, Calanog said. "They'd rather have income for three to six months than nothing."

Or they'll have a tenant lock in for two years in case rents fall further, he said, in "a flight to certainty."

Tony Forte, a recent Cal State Chico graduate, and his girlfriend, Tiffany Comfort, found a 625-square-foot, one-bedroom apartment in Oceanside for \$965 a month after a two-month search. Both are working as temps and wanted to live between Los Angeles and San Diego in case their employment changed. They were able to persuade their landlord to give them a month-to-month rental rather than the advertised one-year lease.

In the nearly 14 years she has been a Redondo Beach landlord, Callahan has consistently priced her units under the market to keep them occupied, a strategy that usually results in no more than a two-week turnaround time between renters. She charges \$1,300 for two-bedroom, one-bathroom apartments in an area where \$1,500 is the market rate. But this year one unit sat vacant for three months.

Unfortunately, Callahan said, she doesn't have much wiggle room to drop her rents further. "Sewer, gardening, taxes have all gone up."

So for the first time, she is allowing a tenant to pay rent in two installments a month rather than risk a prolonged vacancy.

"I never would have done this in the past," Callahan said. "But you have to be creative."

Even in pricey Westwood, landlords Nancy and George Heimler dropped the rent on an apartment -- and for the first time allowed a tenant to have dogs.

Renters seeking more expensive units, such as those doubling and tripling up, will be the most likely to find reductions and other concessions as landlords try to buy some occupancy, said Greg Willett, vice president of research and analysis for MPF Research of Carrollton, Texas. Part of the reason is there are more rentals going begging at the top end of the price range.

"A lot of these buildings were going to be condos," Willett said. "They made the switch to rentals and didn't have time to pre-lease."

Incentives that renters said would most motivate them to sign a 12-month lease were ranked in a recent Move.com survey. Leading the list was one or two months of free rent, followed by two months of free utilities, a free flat-screen or LCD television, and free cable, satellite or WiFi.

For people with low incomes, rents are still high even with the increasing vacancies, said Larry Gross, executive director of the nonprofit Coalition for Economic Survival, a tenant rights organization that covers the L.A. area.

Gross hasn't seen giveaways being offered to renters in this segment of the market.

"They don't need microwaves and TVs," he said. "They need affordable rents and jobs."

Andrea Zuniga, who works as a box-office manager of the LATC performing arts center in downtown Los Angeles, had been trying to find affordable housing near a Metro Rail station so she could commute to work. In a recent three-week period, she looked at about 10 rentals in the Lincoln Heights, Highland Park, Boyle Heights, East L.A. and Westlake areas.

Zuniga and her boyfriend, Diego Robles, a math tutor who is also working on a documentary film, needed a place that would accommodate their small dog and that had an extra bedroom for Robles' father, who is in town several times a month on business. Their budget was \$1,100 a month.

Even with good credit, no history of eviction and full-time jobs, Zuniga said that it was tough to find something in their price range and that she hadn't found any great bargains.

"I called some places that advertised move-in specials, but the rent was like \$2,400," she said.

They eventually took a one-bedroom in Echo Park for \$950 a month -- smaller and farther from a Metro station than they had hoped.

Student housing also remains costly because of the high demand. Near UCLA, rents at a 29-unit student building with a waiting list remain steady at \$2,400 to \$2,600 a month, landlord Nancy Heimler said.

"If you are near a university where kids want to be able to walk," she said, "prices don't go down."