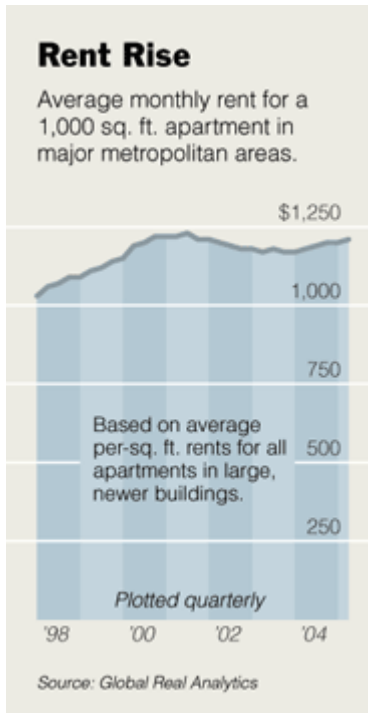


## RENTS HEAD UP AS HOME PRICES PUT OFF BUYERS

*Rents are rising again across the country, squeezing tenants who are already coping with high gasoline prices and improving returns to landlords after a deep five-year slump.*



By David Leonhardt  
The turnaround appears to be another sign that the boom in house prices and sales is finally slowing, as homes have become so expensive in many metropolitan areas that some people have decided to rent instead.

A government report yesterday also offered new evidence that the housing boom could

be reaching a peak. The median price of a newly built home fell to \$203,800 in July from \$219,500 in June, after having risen in the winter and spring, the Commerce Department said.

Still, the number of new homes that were sold continued to grow, and economists cautioned that the recent housing slowdown could turn out to be a pause.

But rents have clearly changed direction, even if the increases have been relatively small. With the economy growing and mortgage rates inching up, more people are looking to rent apartments and homes rather than buy them. At the same time, many buildings are being turned into condominiums, reducing the supply of rental property.

"It seems like the tide has finally turned," said Michael H. Zaransky, co-chief executive of Prime Property Investors, which owns 15 buildings in Chicago.

Rents in about 85 percent of large metropolitan areas have climbed in the last year, according to Global Real Analytics, a research company in San Francisco. Late in 2003, rents were falling in 85 percent of markets.

Only in the hottest markets like New York, Southern California and South Florida have average rents been rising generally.

In Chicago, people who moved into a small brick building on the leafy corner of Sherwin Avenue and Paulina Street two years ago had it very good. They did not have to put down a security deposit, the \$50 application fee was waived and, best of all, they got to live rent-free for two months.

By last summer, the enticements had shrunk to one month of free rent. Today, all that a new tenant receives for signing an \$1,100-a-month lease are the keys to the front door.

Throughout the South, in cities like Atlanta and Charlotte, N.C., fewer apartments are empty, building managers say. Nationwide, the vacancy rate for rentals fell to 9.8 percent in the second quarter after having climbed early in 2004 to 10.4 percent, the highest level since the Census Bureau began keeping statistics in 1956.

Even in Northern California - where average rents dropped about 25 percent after the dot-com crash, according to RealFacts, a research firm there - prices have reversed direction. "I'm appalled at the rents and what they are asking in relation to what they are giving," said Shari West, 47, who lives with her 13-year-old daughter and has been looking for a two-bedroom house in Castro Valley, about 25 miles east of San Francisco. "You're not getting what you pay for."

The apartments she has seen cost almost \$1,800 a month, about \$100 or \$200 more than they did when she briefly looked last summer, she recalled. The buildings still offering concessions, like a month's free rent or a reduced security deposit, are in neighborhoods where Ms. West said she did not want to live.

In most places, the rent increases have been smaller than the ones Ms. West found - smaller in fact than inflation in the rest of the economy. The average rent nationwide rose 2.5 percent from the spring of 2004 to this spring. It had fallen 4.5 percent from 2001 to 2003, according to Global Real Analytics.

Outside the San Francisco Bay Area, many of the biggest declines occurred in cities like Dallas, Denver and Memphis, where abundant land and light regulation allowed home builders to put up thousands of new houses. Rents have continued to drop in those cities over the last year. But they have begun rising in metropolitan areas including Seattle, Las Vegas, Phoenix, Kansas City, Cleveland, Philadelphia and Washington.

"It seems to us that the market bottomed last year," said V. James Marfuggi, chief operating officer of EPT Management in El Paso, which owns 70 properties around the country. "This will be the first year that concessions have not increased."

Some apartment owners have raised the effective rent on their apartments by cutting back on

concessions while keeping the announced monthly rent roughly the same. On North Bosworth Avenue in Chicago, the rent for a two-bedroom apartment in a building near the elevated transit line has increased only slightly in the last year, but the landlord is no longer offering a free month to new tenants.

Other landlords have become pickier about which tenants they accept, no longer signing leases with those who have spotty credit records or who must stretch to afford the rent, said Paul Magyar, director of leasing at Chicago Apartment Finders, a listing service.

The surge in condominium conversions is also helping to push up rents by taking rental buildings off the market. Looking at weak rents and high sales prices, many owners have decided that their buildings are not worth keeping.

Still, the market remains worse for landlords and better for renters than in much of the last two decades, in large part because home sales remain healthy. Mortgage rates are low, and many people are using creative loans that hold down their initial payments, like interest-only mortgages, to become first-time home buyers.

The number of existing homes sold in July rose 4.7 percent compared with July 2004, the National Association of Realtors said this week. But the pace of sales slowed from June to July, according to the trade group, which adjusts its numbers to account for normal seasonal variations.

"The bottom line is housing is not plunging and it's not soaring," said James O'Sullivan, an economist at the investment bank UBS. "There are signs that housing is peaking, but there is no evidence that housing is weakening sharply."

Chris R. Howard, a 28-year-old computer technician at the University of Chicago, has suffered the consequences of rising rents, but he

is about to become one reason that the profits of rental companies remain weak. In the spring, the rent on the two-bedroom apartment Mr. Howard shares with his girlfriend increased to \$1,000 from \$975. "They didn't give any real justification," he said, "other than the rent was low and it needed to be raised."

planning to buy. They could not afford anything in their neighborhood, Ravenswood, but their new apartment on the South Side will be almost twice as big as their current one.

Mr. Howard said they were able to buy the place because mortgage rates were still extremely low.

In October, though, he plans to move to an apartment near the university that they are

## More Rent Is Due

Rents in large metropolitan areas across the country are on the rise.

Largest increases	AVERAGE MONTHLY RENT FOR A 1,000-SQ.-FT. APARTMENT*			
	METRO AREA	Q2 '04	Q2 '05	CHANGE
Las Vegas	\$ 812	\$ 864		+6.5%
San Diego	1,514	1,599		+5.6
Orange County	1,545	1,628		+5.4
Fort Lauderdale	949	1,000		+5.4
Los Angeles	1,614	1,695		+5.0
West Palm Beach	953	998		+4.7
Albuquerque	767	801		+4.5
Miami	1,077	1,124		+4.4
Tampa-St. Petersburg	787	820		+4.2
Riverside-San Bernardino	1,184	1,234		+4.2

Most expensive	AVERAGE MONTHLY RENT FOR A 1,000-SQ.-FT. APARTMENT*			
	METRO AREA	Q2 '04	Q2 '05	CHANGE
Boston	\$1,983	<b>\$2,028</b>		+2.2%
Honolulu	1,866	<b>1,939</b>		+3.9
San Francisco	1,833	<b>1,873</b>		+2.2
Northern New Jersey	1,848	<b>1,863</b>		+0.8
Stamford	1,811	<b>1,813</b>		+0.1
Nassau-Suffolk	1,726	<b>1,754</b>		+1.6
Los Angeles	1,614	<b>1,695</b>		+5.0
San Jose	1,695	<b>1,686</b>		-0.5
Orange County	1,545	<b>1,628</b>		+5.4
San Diego	1,514	<b>1,599</b>		+5.6

\*Data are based on average per square-foot rents for all apartments in buildings with more than 100 units that are less than 20 years old. New York City is excluded because its market is too fragmented to yield meaningful data.

Source: Global Real Analytics