

MARKETS LURING LANDLORDS

RENTAL DEMAND FOR SINGLE-FAMILY HOMES IS HIGH, BUT THERE'S PLENTY FOR OWNERS TO LEARN BEFORE THEY CAN PROFIT

By Marilyn Kennedy Melia © CTW Features



Optimistic investors are drawn to silver linings.

With the outlook for home sales still dark, investors – as well as frustrated home sellers – are focusing on a bright spot: more demand to rent single-family homes. Indeed, market forecaster Local Market Monitor and cash homebuyer HomeVestors of America recently listed metro areas that are rental “sweet spots” where rental charges for are rising even as home prices fall.

But not every property will bring landlords a profit.

Even in those “sweet” rental areas, like Grand Rapids, Mich., Rochester, N.Y., and Houston, “you can make bad investments,” notes Ingo Winzer, real estate analyst and founder of Local Market Monitor. Like buyers, renters want homes in neighborhoods with good schools and near vibrant downtowns, says Jim McClelland, president of Tinley Park, Ill.-based MACK Companies, which rents single family homes.

Moreover, areas where home prices have sunk especially low, such as Detroit and Las Vegas, may have cheap properties that attract investors, but their weak labor markets translate into low rental demands.

If there's one lesson this painful economy has taught, it's that there's no sure thing. Even desperate home sellers who look to rent temporarily to cover heavy mortgage bills should examine the strategy. Here, experts advise how to examine this bright spot without blinders on:

Squeeze Play

Lots more investors are buying single-family homes to rent out, but ordinary owners are reluctant to leave their home and let tenants move in, notes Tony Geraci, broker-owner of Century 21 HomeStar, Cleveland.

“If someone just want to downsize or get another home, they are not looking to rent,” he says. Rather, “it's the people who have to move” and seek renters to relieve the pressure of paying for two residence.

It's wise for homeowners to rent reluctantly, says Carol Friedhoff, a financial planner in Dublin, Ohio. For one thing, you may miss a buyer while the home is being leased. Moreover, “tenants may not care for the home, and when it is time to put it on the market, they may not be cooperative,” Friedhoff says.

It may be impossible for some owners to rent if their homeowner's association forbids it, adds Geraci. And, owners of single-family homes may be required to register their intent to rent with their municipality, which may then inspect the property for health and safety, and you'll also have to upgrade your homeowner's insurance, he adds.

Professional Help

Although sellers are motivated by a cash squeeze to rent, they should sacrifice part of their rental income to a management association, says Geraci. “There are lots of people looking to rent, some might have bad credit because of a single issue like a medical problem and will be good tenants,” he says.

For a set fee, many rental management companies will find a tenant and help owners screen creditworthiness, says Jim Evans, president of the Institute of Real Estate Management. Such management companies also offer a variety of services like dealing with tenant questions and collecting rents.

The market for potential tenants and the probable rental income can be difficult for ordinary owners to discern. Management companies can provide advice.

Not Just a Quick Buck

Just as only certain sellers should turn to rent-



ing, individual investors should be very careful about putting their savings into buying rental property, cautions Steven Weydert, an Irvine, Calif., financial planner.

“The best candidates for real estate investment are already on solid financial footing, are looking to diversify, can afford to take on the additional risk and potential increased return of a concentrated position – which is what real estate is,” Weydert explains.

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