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The new American dream: Leasing your house

By JEFF COLLINS
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Brielle Beyer, 11, center, holds Katniss, the family cat, in the living room of the Beyer family's rental house in Huntington Beach. The Beyers have been renting their 4-bedroom, 1,350-square-foot home for the past 9-years, a period that saw a dramatic increase in rental houses across the country. One in four houses in Southern California is a rental, U.S. Census figures show. (Photo by Leonard Ortiz, Orange County Register/SCNG)

A noisy neighbor drove the Beyer family from their apartment into a rental house nine years ago.

“The guy had his surround sound on every single night. It drove me crazy,” said Bob Beyer, 47, who now rents a one-story house in Huntington Beach for $2,200 a month. “I had to knock on the door to tell him to turn it down so I could sleep. I had to call the police several times.”

The switch from renting apartments to renting a three-bedroom house on a quiet cul-de-sac gave the family a peaceful home at a reasonable rent. If Beyer had his druthers, though, he’d buy a house instead, but that’s not possible.

“If I did buy around here, I’d have a $4,200 payment, which I can’t afford. And I don’t want to buy a two-bedroom condo,” said Beyer, a charter boat captain with a wife, two children and a feline named Katniss. “I’m not happy my money is going to rent instead of an equity investment.”

The Beyers epitomize an ongoing trend in which the number of people renting houses has mushroomed.

In Southern California, detached, single-family rentals increased 29 percent over the last decade — vs. a 13 percent increase in apartment units, according to the most recent U.S. Census data.

The tally jumped to 736,400 rental houses in 2016, equal to one out of every four houses in the region. The increase matches trends elsewhere.

California had a 27 percent gain to 1.8 million rental houses in the most recent decade. Across the nation, detached, single-family rentals jumped 30 percent to 12.5 million in 2016.

Renters are moving into houses for space, for schools or for privacy, a recent survey by U.C. Berkeley’s Terner Center for Housing Innovation found.

Landlords, on the other hand, range from small investors to gigantic hedge funds but also include retirees hanging onto their old houses because they’re in high demand.

“The single-family rental industry is one of the hottest and quickest growing parts of the housing industry in the last couple years,” said Diane Tomb, executive director of the National Rental Home Council, a group representing large, institutional single-family home landlords.

The change could be contributing to a nationwide shortage of homes for sale. It also has numerous implications for family wealth and for policymakers, since there now are 7 million more renters in American than a decade ago, and nearly 414,000 more in Southern California.

The Terner Center study found that while 80 percent of single-family tenants want to buy a home in the next five years, more than 90 percent have financial obstacles to buying.

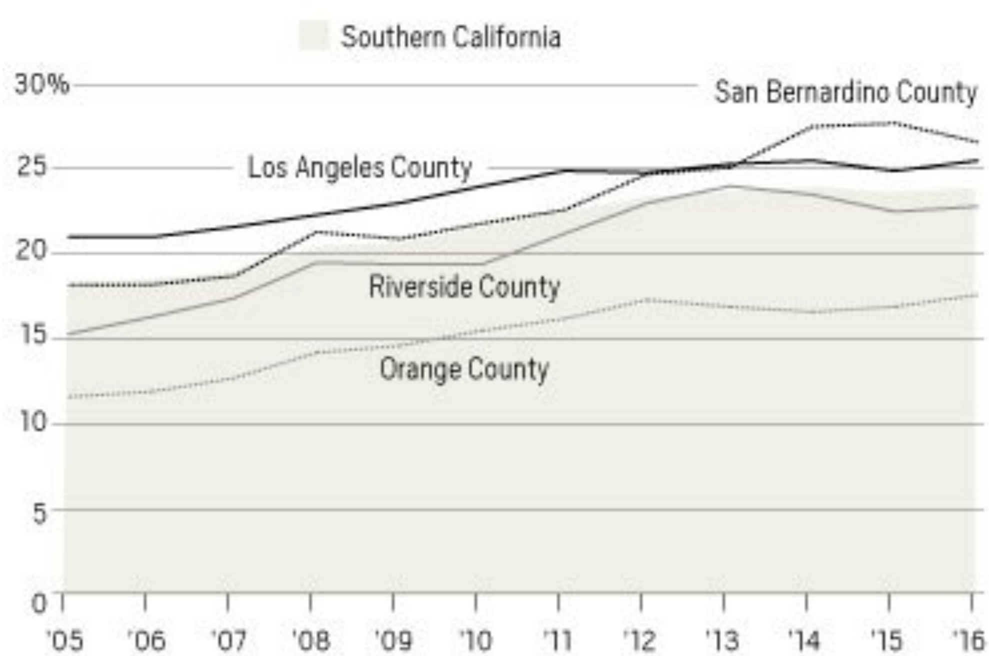
The Terner Center advocates policies such as the adoption a federal renter tax credit as well as expanded access to homeownership through credit repair counseling and alternative pathways like lease purchase options or equity sharing, where an investor shares the costs and benefits of ownership with a buyer.

Owning a home is the primary mechanism for building wealth and economic mobility, said Carolina Reid, co-author of the Terner study. Without wealth, how do you pay for your kids’ college education or create a better life for your heirs, she asks.

“It certainly is contributing to a significant loss of wealth to these individuals and communities,” Reid said of the rental house increase. “That’s deeply troubling.”

Rental share of all houses

The number of rental houses in Southern California is increasing as high debt, tight mortgage standards and high home prices prevent many renters from buying. Many say they are choosing houses over apartments for greater privacy, bigger yards and better schools.



Source: U.S. Census Bureau

SCNG

Leasing the American dream
The Inland Empire, which was ground zero for the foreclosure crisis, had the biggest gain in rental houses: Detached, single-family rentals increased 50 percent in San Bernardino County and 45 percent in Riverside County, census figures show.

In Orange County, detached rental houses jumped 44 percent in the most recent decade, followed by an 18 percent increase in Los Angeles County.

The reasons behind this trend are varied, experts said, but the aftermath of the foreclosure crisis is a key component.

Millions of homeowners became renters, leaving more than 8 million U.S. homes available for investors to snatch up. The Terner Center study found nearly 27 percent of single-family renters who had been homeowners had lost a home to foreclosure.

Other factors include student and consumer debt, difficulties in qualifying for a mortgage, or not being able to save for a down payment.

The rise of the millennial also is a contributing factor.

"As families grow, they outgrow apartments, and they outgrow shared walls, and they might want to go to where schools are better," said Gary Beasley, chief executive and co-founder of Roofstock, a company that helps investors buy rental houses. "Whether you rent or own, it doesn't matter. The stigma of renting has gone away."

Renting also gives tenants freedom from maintenance hassles or the independence to follow a job to a new community.

Baby boomers increasingly are hanging onto their houses as they move into retirement communities, using the rent to help pay their bills, said Irma Vargas, chief financial officer for RST & Associates, a West Los Angeles property management firm.
And there's no shortage of tenants.

"There's a lack of rentals," Vargas said. "But if people can afford it, they'd rather rent a home over an apartment. Obviously, they're more expensive."

"People strive to have the American dream, which is a house," added Mark Wolf, founder and CEO of AHV Communities, an Irvine-based builder of single-family rentals in Texas. "And one of the ways to find it is through leasing."

The landlord
John Peterkovich intended to sell the San Pedro house he grew up in when his mother died in 2013. But grief, uncertainty and an inability to part with the hillside

home overlooking Los Angeles Harbor and the Vincent Thomas Bridge made it impossible for him to sell.

So the retired architect hired a property management firm and rented the house out. That ended up being a better decision since his daughter now wants to buy it.

“My daughter loves the house but can’t afford it. So I’m going to hold onto the house until she can move into it,” said Peterkovich.

The house, which rents for $2,795 a month, generates a good income, Peterkovich said, but it also generates costs.

Most of the income last year went into a new $11,000 roof. In recent years, he also put in new windows, plumbing, repiped the house and made numerous repairs and upgrades.
He pays $150 a month to the property manager when the house is occupied, plus a $700 or $800 leasing fee when they fill a vacancy.

“They take care of all the complaint calls. They collect the rent, take care of the day-to-day things,” Peterkovich said. “With a property management firm taking care of everything, it’s a lot off your mind.”

Peterkovich is representative of the typical rental house owner in America, figures from Irvine-based Attom Data Solutions show.

As of March, 78 percent of rental house and condo landlords owned just one or two properties, Attom figures show. Twelve percent owned three to 10 units, while a mere 9 percent owned 11 or more.

“The vast majority are smaller mom and pops,” said Daren Blomquist, Attom spokesman.

New to the rental house scene are big institutional investors who began snatching up foreclosures in 2011 and turning them into vast portfolios of rental houses.

Companies like Blackstone Group’s Invitation Homes, with 82,570 houses, and Agoura Hills-based American Homes 4 Rent, with 51,239 rental houses, essentially created a new asset from scratch, developing techniques for managing and maintaining rentals scattered across a metro area.

The occupancy rate averages 96 percent, said Rick Palacios Jr., director of research for John Burns Real Estate Consulting in Irvine.

In fact, demand for rental houses has been so strong — and inventory of reasonably priced investment homes so scarce — several companies are planning to build houses to increase their supply of rentals, Palacios said.
While Southern California land prices are too high for the "build to rent" industry, it's profitable in markets like Phoenix, central Texas and the Southeast. AHV Communities already is building rental houses in the Austin-San Antonio area and plans to expand to other states.

"There's so much demand for this product that they are able to make it pencil in markets that aren't way out in the boonies," Palacios said.

Cash-flow positive

Then there are landlords like Will Jarvis, a Santa Monica renter who became a landlord in April, buying a rental house in Atlanta via Roofstock.

Jarvis, 29, project manager for a construction company, initially planned to buy a house for himself, his fiancee and his pet beagle mix, Frank, after getting a small inheritance.

But "house prices are ridiculous and are getting more ridiculous by the day," he said. "I decided to buy a rental property out of state because your money goes further there."

He spent nine months researching markets before deciding to invest in Atlanta. With a $20,000 down payment, he bought a vacant $100,000 house in an Atlanta suburb that normally rents for $1,050 a month, more than enough to cover his $650 monthly house payment. Under a Roofstock rent guarantee, the company will cover 90 percent of the rent for up to a year or until he finds a tenant.

"It's going to be cash-flow positive right away," Jarvis said.

Like Jarvis, Marc and Jami Delgado are renting a house to free up their money to invest elsewhere.

When he was single, Delgado rented duplexes by the beach with friends. Now that he's married with two young children, the 41-year-old management consultant and his wife pay $3,000 a month to rent a one-story house in Costa Mesa.

"We like neighborhood living," Delgado said. "With a family, you value space and privacy."

The Delgados plan to buy their own house within the next year or two, but renting a house allows them to test the waters and learn more about the neighborhood before putting down roots.

“We’re going to try until we buy,” he said.

El Segundo renter April Bucknell said she and her husband have no hope of buying, however.

The family of five moved two years ago to a 1,000-square-foot house they rent for $3,225 a month after selling their house in Michigan for $230,000.

“That’s not enough to put a down payment (on a house here),” Bucknell said. “We’d have to have an $800,000 mortgage. My husband is paid well, but not that well.”

As renters, the Bucknells have no sense of security since they’re not building equity, and a landlord can displace them anytime by issuing a 60-day notice should he or she decided to sell or move back in.

“I feel like I’ve gone back to being an undergrad,” said Bucknell, 43. “I’ve owned a home since I was 27. (Now) I’m not in control of my property. All the walls are white, and they have to stay white. There’s no storage, and we can’t add storage. … We were homeowners. Now we’re back to renting.”