

www.jsonline.com[Return to regular view](#)Original URL: <http://www.jsonline.com/homes/buy/nov04/274749.asp>

In search of renters

Low mortgage rates, shaky job market lead to empty apartments

By MICHELE DERUS
mderus@journalsentinel.com

Posted: Nov. 12, 2004

There's a vacant look to America's housing rental markets these days.

One in 10 apartments has no tenant, new U.S. Census estimates show. The Midwest is tied with the South for worst-faring region, with 12.3% rental-housing vacancy rates in this year's third quarter. Metropolitan areas appear harder hit than rural areas, census data shows.

In metro Milwaukee, "vacancies are anywhere from 15 percent to 20 percent," estimated Laura Martin, spokeswoman for the Apartment Association of Southeastern Wisconsin.

The ultimate sign of lonely landlords: a rash of "for rent" messages offering up Milwaukee's coveted east side, even on prime university-oriented turf such as N. Oakland and N. Murray avenues. The online listing service *apartments.com* showed 98 east side properties seeking tenants in a range of monthly rent between \$390 (studio apartment) to \$1,000 (new two-bedroom, near the lake).

"I've been doing this for 28 years, and I've never seen the market the way it is now," said Alan Rusk, who runs Alshar Investments Inc. in Milwaukee. "I've got eight properties with 42 units, and I'm currently 24 percent vacant. Normally, I'm in the 3 percent to 4 percent range."

Potential renters are being pushed and pulled from the market, some forced out by economic distress and the more fortunate running out to own their homes. While landlords are crossing their fingers that an influx of new renters will soon arrive, they are left in the meantime to attract renters with upgrades or even lower rents.

Tenants are likely to get a free month's rent or two with a one-year lease, or extras such as landlord-paid gas and electric utility bills.

"It becomes a competition for incentives," said Leonard Sobczak, president and principal of Eastmore Real Estate Management Inc., which owns 25 properties on Milwaukee's east side.

"We had free Roadrunner (high-speed Internet service) for a while - that did well with the college set," he said. "We shortened up the term of leases for some tenants to six months, offered some cash-back incentives and rent reduction. We're also asking tenants these days what they'd like, like custom colors rather than the standard off-white walls."

Milwaukee landlord Orville Seymer, president of the Apartment Association of Southeastern Wisconsin, said, "I tried offering a free TV or microwave. That didn't generate a lot of interest. Some people are lowering their rents - in my 14, 15, 16 years, I never ran into that before. Others are happy to get any tenant," even the kind they used to reject, he said.

The apartment market has been in a slump for three years, industry experts say. They blame a double whammy - a shaky jobs market since 2001 and an even longer home-buying spree that has drained the market of prime 20- to 30-something customers.

"There are fewer jobs now nationwide than there were when the recession began in March 2001," said Mark Obrinsky, chief

economist for the National Multi Housing Council in Washington D.C. "Many people who used to rent, or would have, are without a job or worried about their prospects of keeping a job. So they went back to live with Mom and Dad, or a brother or roommate."

Recent employment gains aren't enough to spark a rental market turnaround, Obrinsky said. "If we could get 200,000 to 250,000 new jobs a month on a continuing basis, we'd see a noticeable improvement in rental markets - even if nothing happens with interest rates."

But many landlords see interest rates - notably, mortgage interest rates - as critical to their fortunes. Mortgage interest rates have been at or near 45-year lows for three years straight, hovering last week near 5.8% for a 30-year fixed-rate loan.

If a customer's rent-or-buy decision comes down to simple math, as it often does, landlords often lose.

"The fact is, if you can afford \$650 a month for a rental, you can buy a \$100,000 house. At 6% (interest) on \$100,000 (borrowed), your monthly payment is less than \$650 a month. Why wouldn't you do it? It makes sense," said Thomas J. Nitschke, a lawyer with rental properties in Milwaukee and its affluent western suburb, Wauwatosa. He's afflicted with double-digit vacancy rates in both markets.

Those who can buy, do.

The nation's homeownership rate stood at 69% this fall, up from 64% in 1990, reported the U.S. Department of Commerce.

"Low rates benefit first-time buyers, many of them young people who thought they'd be in the apartment market for an extended time, maybe forever," said Mike Ruzicka, president of the Greater Milwaukee Association of Realtors.

"The 20- to 40-year-olds are what I've lost," Nitschke said.

Few are left to enjoy the moment.

"People who want to stay in the city but can't afford a \$300,000 place in their neighborhood," and tenants whose income is too meager for even a starter home are all who remain, Nitschke said.

More than one-third of the nation's apartment dwellers this year have household incomes under \$20,000, a group growing 3.5% a year since 1999, research from National Multi Housing Council shows.

Landlords, meanwhile, wonder when the rental market will recover.

They're watching employment numbers, knowing that it takes a stable job to produce a stable tenant. They're watching mortgage interest rates, knowing that the ranks of would-be home buyers shrink with every jump in borrowing costs.

"Some of us expect this to last for another three years," Sobczak said.

Seymer was more upbeat, saying, "Come spring, my gut instinct is, things will be better."

The jobs market will improve, and mortgage interests will rise - likely in the next year or so, predicts Obrinsky, the economist. That will infuse rental markets with new strength, he said. So, in time, will today's children.

"We've got the Echo Boomers, streaming into their 20s in the next 10, 15 years and, some say, numbering about 75 million," Obrinsky said. "If they have jobs, they're likely to be housed independently - the great majority as renters."

From the Nov. 14, 2004, editions of the Milwaukee Journal Sentinel
Get the Journal Sentinel delivered to your home. [Subscribe now.](#)