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Small rental buildings up 10% in value from a year ago

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Many segments of the local housing market continue to bounce along the bottom or suffer small declines, but purchase demand for small rental buildings is on the increase and with it, the prices.

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Selling prices on two- to four-unit buildings in Cook County were at their highest level in the third quarter since 2009's third quarter, and are up more than 10 percent from a year ago, according to a Cook County home price index devised by DePaul University's Institute for Housing Studies.

At work are a number of factors, chief among them the growing population of renters that is garnering interest in the sector by both investors and consumers who want to become owner-occupants and landlords all in the same building. Since 2005, the population of renters nationally has grown by more than 4.4 million, according to Harvard University's Joint Center for Housing Studies.

Separately, the Census Bureau put the nation's rental vacancy rate at 8.6 percent in the third quarter, compared with 9.8 percent a year earlier.

Kelly Leggett, a real estate agent at Keller Williams Realty Partners in Chicago, is among those seeing an uptick in prospective buyers who have crunched the numbers and are seeking to capitalize on the trends.

"The prices on the two-flats got down low enough, and the rental prices have come up high enough that it's starting to make sense for people to live in one, rent out the other or rent out both and be in the black," he said.

Among his clients is a couple shopping for a two-flat who lost out on several foreclosed properties because of multiple bid situations, including two cases where the property sold above the list prices.

But the price gains have to be kept in perspective. Despite the increases, the market is still well off its level in 2000. In fact,

it's more than 54 percent below its peak, the Institute for Housing Studies found.

"It's a very distressed market," said Geoff Smith, the institute's executive director. "The small rental property

market was hit harder by the foreclosure crisis than any other market."

The reasons for that are many, from the heavy concentration of small rental properties in economically challenged neighborhoods to the rampant speculation and equally spectacular collapse that occurred when the housing bubble burst.

As a result, any positive movement is welcome. Small rental buildings account for about 26 percent of all housing units within the city, and they comprise 53 percent of units in low- and moderate-income communities in Cook County.

For all of this year, the median price of two- to four-unit buildings in Cook County was \$52,750 for low-value buildings, \$137,000 for middle-value ones and \$435,000 for high-value properties, according to institute figures.

It is that lowest tier of buildings where the prices really are jumping, 19 percent year-over-year, as a result of investor demand. Cash buyers who either are flipping properties or are rehabbing and then renting them account for much of the activity, Smith said.

At the higher-end properties, many of which are found in more stable submarkets, prices rose by more than 7 percent.

Another factor driving up the price of higher-value properties is a lack of available inventory as longtime owners hold onto their buildings, according to Mary Ellen Considine, a real estate agent at Coldwell Banker Residential Brokerage in Chicago.

Buying a rental property and becoming a landlord isn't for everyone, however.

Depending on the neighborhood, it can be difficult to secure financing, particularly if the buyer has no track record as a landlord.

There also are the practicalities to consider, from finding suitable tenants to understanding municipal tenant protections.

"As a landlord, you're on call 24/7," Leggett reminds buyers.

Mortgages in aisle three. Some consumers appear to be pretty fed up with traditional mortgage lenders and are willing to look in other directions. In a survey of about 600 people this fall, 80 percent of respondents said they would consider getting a mortgage from a nonbank, according to Carlisle & Gallagher Consulting Group, of Charlotte, N.C. A third of those consumers said they would consider a mortgage from Wal-Mart, and half said they'd consider getting one from PayPal.

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