Eastern Michigan Real Estate Investment Association

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Investor frenzy over housing has peaked
by Nin-Hai Tseng

When the U.S. housing market crashed in 2007, millions lost their homes to foreclosure. With their finances in shambles, they picked up the pieces by renting rather than buying. Big institutional investor quickly caught on, snapping up foreclosed properties on the cheap and renting them out.

All this has helped drive the recovery we're seeing today: Investors effectively absorbed the excess inventory of homes for sale, which in turn has helped push home prices higher. Prices for rentals have also risen rapidly, as families who either lost their homes or put off buying found rentals to live in.

While this has gone on for some time, the investor frenzy might have peaked. Rents for single-family homes have essentially flattened—rising just 0.1% in March from a year earlier, according to a report released Thursday by real estate listing website Trulia. What's more, in some cities where investors had the biggest appetite for properties on the cheap, rents have fallen: Take Los Angeles, where rents fell 1.9%; rents in Orange County slipped down 0.7%; Las Vegas saw a 1.9% drop. And in two other key investor markets—Atlanta and Phoenix—single-family home rents remained flat, rising less than 1%.

Meanwhile, rents for apartments have continued to rise, climbing 2.9% in March from a year earlier.

The change suggests good news. It hints that the broader housing market is normalizing, as the role of big investors in the recovery wanes. They bought so many properties that the supply of single-family homes for rent has met demand. Nationally, there were nearly 4 million more homes for rent in 2012 since the housing market last peaked in 2005. With rents softening, investors may start selling off their properties, adding to the tight supply of homes for sale, says Jed Lolko, Trulia's economist.

Of course, there's risk that this could dampen momentum of the recovery. Some have argued that once big investors stopped buying, home sales and subsequently home prices could start flattening then falling again.

There's more to it, however. While institutional investors have played a big role in reversing the housing market, their part isn't as big as some might think.

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MSHDA HOME IMPROVEMENT (PROPERTY IMPROVEMENT PROGRAM) FOR LANDLORDS

submitted by Dianna Maxwell

WHO CAN APPLY?

The Property Improvement Program offers low-interest home improvement loans to landlords who want to improve their investment properties.

The property must be located in Michigan. The borrower must own or be in the process of purchasing the property and must be a natural person (limited liability company, corporation, partnership or similar entities are not allowed). The property cannot have over 11 units. There are no income limits for landlord borrowers, and you must have a credit score of 620. Higher loan amounts will require a higher credit score of 660.

Units up to 11 are eligible and the gross rent on each unit cannot exceed MSHDA's rental limit for their community for the life of the loan.

WHAT HOME IMPROVEMENTS ARE ELIGIBLE?

Eligible improvements must substantially protect or improve the basic livability or utility of the property. Eligible improvements include but are not limited to the following:

- Roof repair or replacement
- Insulation, siding, window replacement, and other improvements that increase the energy efficiency of the property;
- Central air conditioning and furnace replacement;
- Kitchen and bathroom remodeling;
- Permanently installed carpeting (wall-to-wall) and built-in kitchen appliances (must be permanently affixed as an integral part of the kitchen, hard-wired or plumbed);
- Ramp installation;
- Attic and basement finishing;
- Upgrading electrical wiring;
- Building an addition;
- Walkway and driveway installation;
- Lead paint hazard remediation;
- Garage repair and construction (not to exceed 800 square feet in area). Carports are also allowed;
- Decks and gazebos that are NOT for hot tub use or around a swimming pool;
- Fences (chain link, brick, wood, iron);
- Fireplaces (indoor);
- Pole barns and utility buildings on a permanent masonry/concrete foundation;
- Fire suppression sprinkler system (indoor);
- Solar water heating systems;
- Solar room sunspace/solarium (permanently installed for use as a sun room, family room);
- Windmills for purposes of furnishing power to residential structures

HOW MUCH CAN I BORROW?

- Single-family rental unit—up to $25,000 (total cumulative loan to value of home cannot exceed 105%);
- Multi-family rental units—up to $12,000 per unit (total cumulative loan to value of home cannot exceed 105%);
- Multi-family rental units—maximum shall not exceed $25,000 per unit, and maximum outstanding per borrower shall not exceed $100,000)total cumulative loan to value of home cannot exceed 100%), with minimum credit score of 660 required.

WHAT IS THE INTEREST RATE?

The interest rate is 8%. The annual percentage rate (ARP) will be higher depending upon the loan amount, origination fee, etc.

WHAT ARE THE LOAN TERMS?

- Up to 20 years to repay the loan
- No annual fees
- No penalty for early payoff
- Underwriting/loan processing fee in the amount of $100 on loans below $7,500 and in the amount of $200 on loans above $7,500 is financed in the loan amount (not our of pocket)
- A 2% origination fee ($100 minimum) is financed in the loan amount (not out of pocket).
- All landlord loans are secured by a mortgage on the property,
- Title insurance is required and is an "out-of-pocket" expense.

I'M INTERESTED, NOW WHAT?

You need to decide what improvements you want to make. Depending upon local building codes, you *may* be able to do some of the work yourself, financing only the cost of materials (you cannot get loan funds to pay your own labor). If a contractor is required or preferred, the individual must be state licensed.

Now you are ready to talk to a MSHDA-approved Participating Lender or Community Agent about applying for a loan.

You can call them first to discuss your credit and income, and see if they think you are eligible before you fill out the paperwork. Or you can go ahead and fill out the paperwork first. Either way, at the time you formally apply you will need the following documents:

- PIP Loan Application (found on the MSHDA website)
- Contractor's detailed estimate or detailed list of materials on supplier's letterhead

HOME IMPROVEMENT (PROPERTY IMPROVEMENT PROGRAM) FOR LANDLORDS submitted by Dianna Maxwell

- Income verification (most recent one month's pay stubs, Social Security statement, etc.,)
- Copies of prior year's tax returns (two years if self-employed, rental property, etc.)
- Proof that property taxes are paid to date (two years)
- Copy of homeowners hazard insurance policy showing limits of coverage.
- Proof of ownership (properly recorded deeds and land contracts tracing title to last recorded warranty deed).
- If more than one unit, proof of the number of units contained in the structure (photocopy of local property assessor's card, rental license, etc.)

ADDITIONAL INFORMATION FROM MSHDA

SECTION 4—LOAN AMOUNTS

The total principal obligation for a property improvement program loan shall not exceed the actual cost of the project plus any applicable fees and charges, up to the flowing maximum loan amounts:

4.01 Loan Amount—Homeowners

- Single family site-built home-may borrow up to $50,000 (loans up to $25,000 are Title 1 insured)
- Manufactured housing/mobile home where the Borrower owns the home and the underlying lot—may borrow up to $17,500 (Title 1)
- Note: For a duplex where the homeowner lives in one half while renting the other half, the loan amount guidelines follow those for landlords (though the income qualifications follow those for homeowners).

4.02 Loan Amount—Landlords

- Single-family rental unit—up to $25,000 (Title 1)
- Multi-family rental units (Title 1) - The limit is $60,000 or an average of $12,000 per unit, whichever is less. The number of properties and loans a landlord may participate in at any one time is based upon income, debt load, and other credit risk factors.
- Multi-family rental units (non-Title 1) - may borrow up to $25,000 per unit, and the maximum outstanding balance per Borrower is $100,000, regardless of the number of properties.

SECTION 5—IMPROVEMENTS

5.01 Eligible Improvements

Loan proceeds may be used only to finance property improvements which substantially protect or improve the basic livability or utility of the property. The improvements must be identified in the PIP Loan Application (MSHDA Form H-1), the Contractor/Borrower Worksheet (MSHDA Form H-3), and the contractor and/or supplier's estimate. Eligible improvements include but are not limited to the following:

- Additions to homes
- Air conditioning (central)
- Asphalt siding
- Attic (including attic fans)
- Awnings (aluminum, canvas, plastic, wood)
- Barns
- Basements
- Bathrooms (including bathtubs, enclosures, fixtures and connections)
- Black topping (homeowner loans only)
- Blinds (venetian, vertical)
- Blowers (furnace)
- Boilers
- Bookcases (built-in)
- Brick shingles or siding
- Built-in kitchen equipment (hard wire/hard plumb)
- Burglar alarms (hard wire)
- Burglar bars/decorative bars (permanent)
- Burners (furnace, oil, gas)
- Cabinets
- Canopies
- Carpet (wall-to-wall)
- Carports
- Casements (window)
- Ceiling
- Cellar (storm, wine)
- Chimneys
- Chutes (coal, grain, laundry)
- Cleaning (steam—before painting)
- Cold storage rooms
- Composition (flooring, paneling, shingles, siding)
- Condominium (single family, inside of unit only)
- Curbing (single family only)
- Decks (not for hot tub use or around a swimming pool)
- Dishwasher (hard wire, hard plumb)
- Door chimes (hard wire)
- Doors (storm, fire, screen)
- Downspouts
- Driveways (private, not for multifamily properties)
- Ducts

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submitted by Dianna Maxwell

- Electric light systems
- Elevators
- Exhaust fan
- Exterior finishing work
- Fences (chain link, brick, wood, iron)-must have a structure on the property
- Finishing work
- Fire escapes
- Fireplaces (indoor)
- Flooring
- Flues
- Foundations
- Furnaces (coal, floor, gas, oil, geothermal)
- Garages, only for the purpose of storing automobiles and other home ownership related items. Must be designed in a typical residential style.
- Garage door opener (electric, hard wired)
- Garbage disposal units
- Gas heating systems
- Gazebo (on permanent foundation, and not for hot tub use or around a swimming pool)
- Generators (permanently installed)
- Geothermal furnaces
- Grates (furnace)
- Guttering
- Hook-up and/or tap-in fees are eligible as well as expenses incurred when laying water or sewer lines on the property site
- Insulation
- Interior work
- Jacuzzi (inside bathroom)
- Kitchen remodeling
- Lattice work
- Laundry chutes
- Laundry tubs
- Lightning rods
- Lead paint hazard remediation
- Meters (electric and water, gas) (replacement only)
- Molding
- Painting
- Paneling
- Papering
- Partitions
- Patios
- Paving
- Plastering
- Plumbing
- Pole barns (permanent foundation)
- Porches
- Radiators (permanently installed-covers not eligible)
- Railings
- Ramps
- Registers (heat)
- Resurfacing
- Retaining walls
- Roof coating
- Roofing
- Sanding
- Sashes
- Screening
- Security systems (hard wired into electric system)
- Septic tank replacement
- Shingles
- Shower doors
- Shutters
- Sidewalks (private, not multifamily)
- Siding (cement, ceramic tile, brick, wood, aluminum)
- Silos
- Sinks
- Smoke detectors (electric, hard wired)
- Solar Room Sunspace/solarium (permanently installed for use as a sun room, family room)
- Solar water heating system
- Sprinkler system (fire, not irrigation) - indoor
- Stairs
- Storm cellars
- Storm panels
- Studding
- Structural changes
- Tiles (ceiling, ceramic, cement, floor—permanently affixed, plastic, acoustical)
- Termite control, with replacement of damage
- Trees (diseased or damaged AND hazard to structure on property) and part of project
- Utility Buildings (sheds) - permanent masonry/concrete foundation

HOME IMPROVEMENT (PROPERTY IMPROVEMENT PROGRAM) FOR LANDLORDS

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- Venetian/mini blinds
- Ventilation hoods
- Ventilation systems
- Vents
- Verandas
- Wall heaters
- Wallboards
- Walls
- Washtubs
- Water conditioners (purifiers, softeners, sterilizers) - permanently installed in plumbing system
- Water coolers (permanent)
- Water heaters
- Weather-stripping
- Windmills—only for furnishing power to residential structures
- Windows (screen, storm, thermal)
- Wiring—electric
- Wood shingles (siding, paneling)
- Wood-Fired boiler (attached to a gas boiler which serves as a back-up_

5.02 Ineligible Improvements

Ineligible improvements include any improvement which is not a permanent fixture to the property, or which are considered luxury items. Ineligible improvements include but are not limited to the following:

- Air conditioner in a window, and not permanently affixed to the property
- Asbestos siding
- Barbecue pits
- Barn cleaners
- Cabana room
- Clothes lines and poles
- Commercial buildings
- Deck around swimming pool
- Dishwashers that are portable, and not part of the sink
- Dumbwaiters
- Equipment rental or purchase
- Exterior hot tubs, saunas, spas, or whirlpool baths
- Fire extinguishers
- Fireplaces—exterior
- Flower boxes
- Food mixers
- Freezer (unless built-in and hard wired)
- Greenhouses
- Hangars (airplane)
- Kitchen appliances (unless built-in and hard wired)
- Irrigation systems
- Kennels
- Landscaping
- Ovens (unless built-in and hard wired)
- Playground equipment
- Satellite dishes
- Sprinkler systems
- Swimming pools
- Swimming pool enclosures
- Tennis courts
- Tool rental or purchase
- Tree surgery/removal (unless tree is diseased AND hazard to structure)
- Television antennae
- Waterproofing by pumping or injecting any substance in the earth adjacent to or beneath the foundation or basement floor

In addition, the following items are not eligible:

- Conversion of a nonresidential structure to a residential structure
- Conversion of a recreational home to a year-round permanent residence
- Costs associated with moving a house
- Costs of completing an unfinished structure that has not been previously occupied as a residence
- Costs associated with a project which will be incomplete
- Debt consolidation
- Improvements to a recreational home
- Improvements begun before the date of the loan closing
- Improvements to the portion of buildings or real estate owned by the association in a PUD or Condominium project
- Labor costs paid to the Borrower or any resident of the household
- Materials or permanent fixtures which substantially exceed the quality of those in the locality of the subject property
- New construction or expansion of an area used in a trade or business
- Public improvements

How to Keep Vacancy Costs to a Minimum During Downtime

by David Seeman

Using extra time, money and resources to complete the dreaded move-out process can be detrimental to an apartment manager's finances if not handled correctly. Vacancy loss days, maintenance fees and marketing efforts for new residents are just a few expenses that add up during apartment turnaround.

In a time when rentals are on the rise, new technologies, strategic thinking and regular maintenance or renovations can make the turnover process more efficient and cost effective. Every time a lease ends, it shouldn't have to mean 40-plus days of money and times wasted.

Multi-housing boom

Due to the industry's strong rebound from the recession, developers jumped on the opportunity to increase supply. According to CoStar Group, there were a 66 percent increase in unit construction in the largest 54 metros in 2012, and 2013 will mark the first year since 2009 that the number of new apartment units added to the market will return to historic levels. However, while there was a steady growth in rentals through 2012, many expect a more moderate growth in 2013.

This boom is multifamily construction is a positive indication and part of the reason why the industry contributed a significant $1.1 trillion to the economy. But the increase in supply also signifies an increase in vacancy rates, which CoStar predicts will trend upward in 32 of the 54 largest metros in 2013. If not handled strategically, each empty unit could end up costing owners significantly. In order to keep expenses and vacancy time down, it's important to keep the following in mind.

Think upfront

Management and labor costs stemming from re-keying traditional locks are two of the biggest hurdles for apartment managers as residents move out. By implementing available technologies upfront, owners will save costs in the long run. For example, Kwikset's Key Control Deadbolt allows residents and owners to have one-key access control to all units and maintain key control throughout tenant turnover. This way, managers save the time and money it takes to swap out cylinders or buy and install completely new locks. If a manager were to change 100 locks, he could save an estimated 9.5 minutes and $25 in labor per lock, or 15.8 hours and $3,500 total compared to a traditional pin and tumbler lock.

Plan strategically

Nearly two-thirds of apartment managers increased their staff in 2012 due to high demands. Utilizing their workers efficiently is important when managing turnaround time. By staggering move-out dates throughout the month, landlords can ensure that resources are readily available to get the maintenance jobs finished quickly and effectively. Employing in-house crews instead of third-party workers will help managers save additional time and money.

Minimize turnover rate

The ideal solution to saving money and time from turnarounds is to cut them out completely. Know what renters value in a multi-family home, and ensure they are pleased with what you are offering. If done strategically, renovations end up paying for themselves. Some projects to consider include:

- High functioning kitchen and baths
- Installing home access control systems to monitor lighting, energy usage and security
- Hard surface flooring to ensure less risk of damage
- Exterior improvements to the building to maintain structure and appearance

It's vital to know how to manage resources efficiently during a year when vacancy is likely expected. By employing available technologies and strategies ahead of time, apartment managers can avoid added expenses associated with apartment turnaround.■

Why higher mortgage rates will help the housing market

by Nin-Hai Tseng

Mortgage interest rates have been rising on signs that the U.S. economy is improving. Last week, the 30-year fixed rate reached the highest level in more than six months, climbing to an average of 3.63%, compared with 3.52% the previous week and 3.92% a year earlier. The current rate is the highest it's been since the week of August 23 when the 30-year fixed rate averaged 3.63%, according to Freddie Mac.

With economic prospects improving, rates could rise even higher this year. This increase could mathematically make buying a home more expensive, but it's unlikely to stall the housing recovery. To the contrary, higher rates could actually support it.

For the past few years, mortgage rates have sunk to new lows as the Federal Reserve continues to buy up hundreds of billions of dollars worth of bonds. The policy is meant to get everyone from investors to consumers to borrow and spend more. While it has driven many homeowners to refinance existing home loans, it hasn't' spurred nearly as many mortgages for home purchases. In 2012, refinances made up 71% of all mortgage originations, according to the Mortgage Bankers Association, a group that tracks mortgage rates and home loan trends.

Home sales last year rebounded more than most ever thought. Even if mortgage rates edged higher, the recovery could last for a few reasons.

For one, those who've been eyeing to buy a home may finally pull the trigger once they realize that borrowing is still cheap and it would be wise to lock in today's mortgage rate rather than wait and see where rates could fall tomorrow or months from now, says Andrea Heuson, finance professor at the University of Miami. "It could bring serious purchases back to the market."

To be sure, the Great Recession has proven that mortgage rates have also no influence over home prices. And so the sustainability of the housing recovery will depend more on factors such as jobs growth than the cost of taking out a home loan.

If anything, slightly higher rates could reflect that slightly more risky borrowers are being offered credit following years of tighter lending standards. And this could be a good thing, says Barney Hartman-Glaser, real estate finance professor at Duke University.

"Although important, rising interest rates alone are not enough to slow down the housing recovery," says Hartman-Glaser, adding that "my sense is that underwriting standards are getting easier to satisfy, and so we would expect rates to rise slightly as more risky borrowers are brought into the fold."

However borrowers interpret higher rates, the increase ultimately reflects an improving economy. Which, in turn, is something that would support the housing recovery rather than stall it. Investors have increasingly turned to riskier investments since the start of the year. The stock market has reached new highs, making bonds look less attractive and therefore pushing mortgage rates higher.

Heuson adds the rise in mortgage rates coincides with growing demand for loans across U.S. businesses—a marked turnaround from the dark days of the financial crisis and subsequent economic recession. At the end of January, commercial and industrial loans stood at more than $1.5 trillion, up more than 12.5% from a year earlier. What's more, the current level is more than 75% above the low point of $970 billion in mid 2004, according to the Federal Reserve statistics.

"From that perspective, the recent increase...bodes well for the future of the U.S. economy," Heuson says, adding that when businesses borrow more, that will typically boost the economy in all kinds of ways, from spurring jobs growth to raising consumer confidence.

And last but not least, it could encourage more home sales.■

Why renters are still driving America's building boom

by Nin-Hai Tseng

Construction of apartment complexes still makes up 33% of all residential construction, much more than the pre-housing crisis average of 20%.

As America's housing market slowly heals, good news is pouring in from homebuilders: They're building more; they're hiring more workers; they're building bigger houses. Still some things haven't changed: Renters (as opposed to buyers) are still driving the rebound of the residential construction industry.

Construction of single-family homes rose to a nearly five-year high in February, the Commerce Department reported. Single-family home building, which made up about 66% of housing starts last month, rose 0.5% to a rate of 618,000 units—the highest level since June 2008. This follows a 31.5% rise in single-family construction in the last year.

Although this might suggest buyers are driving homebuilding again, renters are still playing an unusually large role in the home construction industry—a trend that's lasted since 2007 when the housing market collapsed. Construction of multi-family homes, typically destined for the rental market, make up about 33% of all residential construction today. That's markedly higher than the average of nearly 20% over the past two decades.

A few reasons have brought about the rise of the rental class: Following the financial crisis, record foreclosures displaced millions of families from single-family homes to apartments. While recovery of the housing market looks to be gaining traction, high unemployment and tighter lending standards are still keeping many from owning a home. Homeownership is still slipping, while vacancies for residential rentals have risen.

Tighter lending standards at banks aren't just hitting homebuyers. Builders are feeling it, too, especially smaller firms that typically specialize in building single-family homes, says Robert Denk, chief economist at the National Association of Homebuilders. Builders of apartment complexes, typically larger firms, usually access financing for their projects through capital markets.

To be sure, the rental class won't likely rise forever as conditions grow ripe for a revival of single-family homes, experts say. Even though home prices are rising, it's still cheaper to buy than rent in many cities as mortgage rates stay ultra low. Nationwide, buying a home between December and February was 44% cheaper than renting, down slightly from 46% in 2012, according to Trulia's Rent vs. Buy report.

Demand for rentals is also expected to soften over time as recovery of the overall housing market, which is closely tied to the wealth of most Americans, is expected to lead to a broader recovery of the economy, says Ruijue Peng, chief research officer at CoStar, a firm that tracks commercial real estate.

But for the next three to five years, though, builders will likely pander more to renters rather than buyers, Peng says.■

The Art of Screening

by Jessica Fiur

The best defense when it comes to making sure you won't have to evict your residents because they fail to pay rent is a good offense. Do you know who your residents are before they sign the lease? What is their credit history? Is there a criminal record you need to be aware of? With a good resident screening system at your community, all these questions can be easily answered before it's too late.

"Resident screening procedures are necessary to ensure that residents meet a criteria that is suitable for that particular apartment community in regards to historical credit checks, background checks, employment verification and resident history," Matt Mundy, development manager, Estates Management Co., tells MHN.

Furthermore, non-payment of rent can lead to high resident turnover and low occupancy in the community.

"Moving in 'unscreened' or 'improperly screened' residents leads to low occupancy," says William Guessford, head of Greystone's Property Management Division. "No one wants to live next to a guy who's been evicted twice for loud music. Also, poor screening will cause the move in of residents who have previously treated their homes poorly and will incur costs to ready the apartment for the next resident."

One of the main reasons a resident may not be able to keep up with rent payments is personal debt, which is one of the key indicators a screening process should flag.

"Similar to a mortgage, you don't want a prospect to get overleveraged in their debt and take on an apartment rent that they clearly cannot manage," says Elaine Williams, vice president of property operations at UDR. "You want to make sure that you're screening customers to make sure that they can properly pay for that debt."

Beyond the fear of non-payment and the lengthy and costly eviction process, a good resident screening program can help weed out applicants with a criminal history, which will ultimately make your community safer for other residents.

"The safety of your residents is very important," Williams says.

Take it online

It is now possible to screen residents online, which makes the process easier and faster than it has been in the past.

"One of the values of having an electronic measurement and means that we didn't have before is that we can actually get instant criminal backgrounds and credit screening," Williams says.

"The government is posting all this information, which is public record, and we're able to instantaneously approve a customer in just a few minutes," adds Williams.

Online resident screening programs also allow property managers to incorporate their programs with other building systems.

"Our company is currently integrating our resident screening into our online leasing platform, which will allow a resident to apply, be approved, pay their related application fees and deposits, and sign their lease—all online," Mundy says. "This is particularly important when having online applications and online lease execution, as we live in a society that desires to go through the entire leasing process in just one sitting."

An online screening process also appeals to Millennial renters, who make up a large percentage of the renter market. However, appealing to Millennials brings its own set of problems.

"The younger generation just entering the work force may not have a credit history, which will limit your ability to assess their qualifications," Mundy says. "If you take a risk on approving a potential resident with a lack of credit history, you may 'lose.' To limit a potential resident with little or partially negative credit history, sometimes guarantors may be required."

New challenges

One concern that is surfacing during screenings are people who are applying for an apartment using a fake social security number-or who don't have one at all.

"Any time you run a credit or background check, it is almost always referenced to that potential resident's social security number," Mundy says. "On very rare occurrences, we have seen individuals supply a social security number that did not belong to that individual. The management company will most likely never realize that the social security number was really that of an identity theft victim, unless that resident is eventually caught by police."

However, there are ways to identify someone who is misrepresenting him or herself.

"The approval process has always presented this particular challenge, but the large influx of undocumented individuals has created a far more difficult situation

The Art of Screening by Jessica Fiur

when trying to determine if the person applying is who he or she represents themselves to be," Guessford says. "Luckily, most of the industry software reacted quickly to the issue and added additional screening features for those with I-9 documents, foreign gift income, etc."

In addition to computer programs being able to catch identity theft, property managers can do their own part.

"It is very important that the management company takes the necessary precautions when verifying the identity of potential residents," Mundy says. "They often pertain to having the individual produce more than one document to prove their identity."

Another issue that can arise when screening potential renters stems from the recent economic downturn.

"The most frequently encountered issue we find in today's market is the large number of applicants coming from an unfortunate single-family foreclosure experience," Guessford says.

Mundy also finds that people are defaulting on previous mortgages; however, this might not necessarily exclude someone as a renter.

"A few years back, resident screening criteria may not have allowed for any mortgage defaults on a credit report, but today you really have to take a deeper look at the credit report rather than just if the potential resident has had a mortgage default, as this has affected a lot of good people across the country who still make quality residents," explains Mundy.

But even if some flags go up about debt during the screening process, it is important to look at the person as a whole and not just a credit score.

"A lot of the debt-screening models we have today are what I call the 'gotcha' models," Williams says. "In the multifamily industry, we look for things to catch our customers to make sure we're not moving in bad customers. But credit is something that people are always going to have challenges with, especially as the economy changes."

Williams adds, "I think that we as an industry should look more to what the car industry does. We need to find a way to approve customers so they can still afford us, as opposed to finding ways that they can't. I think we need to look into taking more risk with debt."■

We still have renters to thank for healthier housing market by Nin-Hai Tseng

Housing construction is soaring, but much of it is still going to renters.

For all the good news we've heard about in the U.S. housing market, some things still haven't changed. Builders are breaking ground on more new homes than we've seen in years, but buyers aren't exactly clamoring for them.

For the past year, housing starts have risen by 37%. However, home sales haven't kept up, rising only 9% during the same period, according to a report by Capital Economics. In December, housing starts rose at the fastest pace since the summer of 2008. But at an annualized 954,000, that was far more than the 369,000 new homes sold during the same period.

The gap doesn't suggest that builders are overbuilding, like they did in those regrettable years when the market boomed on easy credit. They are overwhelmingly building for renters, not buyers. Which suggests that a healthy housing market may not necessarily call for more home sales, at least nowhere nearly as many as during the boom years.

Shares of the biggest U.S. builders including Lennar Homes (**LEN**) and Toll Brothers (**TOL**) have soared during the past year, but investors appear more excited about renters than a return of homeowners. To date, construction of multi-family units destined for the rental market rose by 150% over the two years ending in the third quarter of 2012. That's by far higher than the 50% rise of newly constructed multi-family homes for sale and a 30% increase of single-family starts also for sale, according to Capital Economics.

The tendency to rent versus buy is clear when we look at the homeownership rate, which has stayed flat as borrowers lost homes to foreclosures and tighter lending standards stalled sales. During the last three months of 2012, the homeownership rate fell slightly to 66% from 66.3% the previous quarter, according to the U.S. Census Bureau's latest report. That's considerably lower than the 69.2% when homeownership peaked amid the housing market boom in June 2004.

To be sure, individual buyers have started playing a bigger role in the housing recovery. Mortgage applications for home purchases have risen for the past five months as interest rates have stayed ultra low. What's more, the rate of homeownership has edged up from its post-peak low of 65.9% during the second quarter of 2012.

Ownership is unlikely to return to its peak, at least not any time soon. That's not necessarily a bad thing, given that easy credit is what helped drive the nation into financial disarray in the first place.

And so the renters that are helping the market heal are certainly welcome.

Economy Watch: Apartment Market Continues to Tighten by Dees Stribling

Apartment vacancies nationwide continued to shrink in the first quarter of 2013, according to a report by Reis Inc. released on Wednesday. Vacancies fell by 20 basis points during 1Q13, dipping to 4.3 percent. Over the last four quarters, national vacancies have declined by 70 basis points, a much faster than any other CRE sector.

Reis notes that apartment vacancies have now fallen by 370 basis points since the cyclical peak of 8 percent, which was recorded back in late 2009. By contrast, office market vacancies have only fallen by a miserly 60 basis points since fundamentals began recovering five years ago.

The apartment sector absorbed a net of over 36,000 units in the first quarter. However, Reis adds, apartment owners only have another quarter or two of tight supply before a large raft of new properties come online-some 100,000 units will be added to the market nationwide this year, mostly in the second half of the year.

Home prices increasing briskly, especially in California

Core Logic said on Wednesday that home prices nationwide, including distressed sales, increased 10.2 percent in February 2013 compared to February 2012. That's the largest year-over-year increase since March 2006. On a month-over-month basis, including distressed sales, home prices were up 0.5 percent in February 2013.

Take distressed sales out of the equation and U.S. home prices increased year-over-year at nearly the same rate: 10.1 percent in February 2013. Month-over-month, the increase was 1.5 percent in February. In Core Logic's calculations, distressed sales include both short sales and REO transactions.

"The rebound in prices is heavily driven by western states," Mark Fleming, chief economist for Core Logic, noted in a press statement. "Eight of the top 10 highest appreciating large markets are in California, with Phoenix and Las Vegas rounding out the list."

ADP reporting middling jobs growth

Ahead of the official employment numbers of Friday, Automated Data Processing made its usual monthly report on private hiring, finding that 158,000 private-sector jobs were created in March. That compares unfavorably to last month's revised report, which found that 237,000 private-sector jobs were created.

Also on Wednesday, the Institute for Supply Management reported that its Non-Manufacturing Index came in at 54.4 percent in March, 1.6 percentage points lower than in February. The drop indicates continued growth at a slightly slower rate in the non-manufacturing sector.

Wall Street dropped on Wednesday, perhaps in response to the relatively weak numbers of the day. The Dow Jones Industrial Average lost 111.66 points, or 0.76 percent, while the S&P 500 and the Nasdaq declined 1.05 percent and 1.11 percent, respectively.■

Investor frenzy over housing has peaked

(Conclusion) by Nin-Hai Tseng

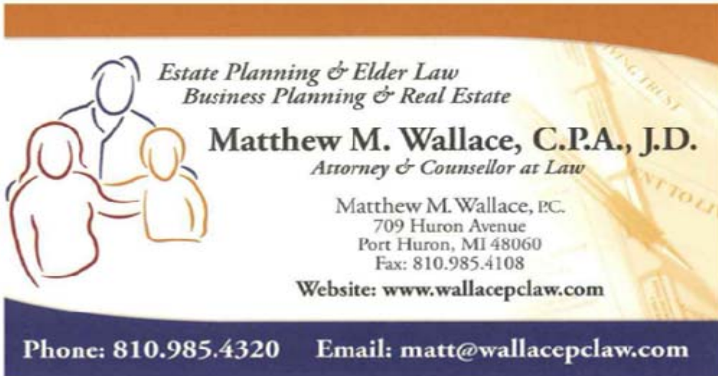
Investors fall under two categories: There's the big corporate kind. And then there's the individual investor: High earners who buy multiple homes.

As *The Wall Street Journal* highlighted recently, small investors accounted for a good chuck of home sales in areas where the Blackstone's (**BX**) of the world also drove sales. In Phoenix, small investors who bought more than five homes accounted for 26% of home sales at the end of 2012; Atlanta, 24% and Las Vegas, 22%.

It might not make financial sense for institutional investors to keep buying if the payoff continues to soften, but it could be different for small investors. They may very well still be willing to buy, analysts say.

"If all the big funds went out of business today, we'd still be talking about investors," says a housing analyst quoted in the *Journal.*

And as for renters in search of single-family homes, they might enjoy cheaper rent.■



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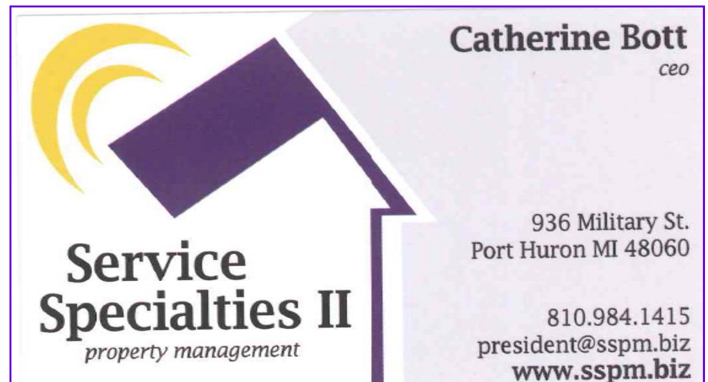

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