

Renew your lease - rents could rise 10%

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NEW YORK (CNMoney) -- Renters beware: Double-digit rent hikes may be coming soon.

Already, rental vacancy rates have dipped below the 10% mark, where they had been lodged for most of the past three years.

"The demand for rental housing has already started to increase," said Peggy Alford, president of Rent.com. "Young people are starting to get rid of their roommates and move out of their parent's basements."

By 2012, she predicts the vacancy rate will hover at a mere 5%. And with fewer units on the market, prices will explode.

Rent hikes have averaged less than 1% a year over the past decade, according to Commerce Department statistics, adjusted for inflation. Now, Alford expects rents to spike 7% or so in each of the next two years -- to a national average that will top \$800 per month.

In the hottest rental markets, the increases will likely top the 10% mark annually for the next couple of years, according to Lesley Deutch of John Burns Real Estate Consulting. In San Diego, she anticipates rents will rise more than 31% by 2015. In Seattle rents will climb 29% over that period; and in Boston, they may jump between 25% and 30%.

This is a sharp change from the recession, when many Americans couldn't afford to live on their own. More than 1.2 million [young adults moved back in with their parents](#) from 2005 to 2010, said Deutch. Many others doubled up together.

As a result, landlords had to reduce prices and offer big incentives to snag renters.

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Now that the recession is easing, many of these young people are ready to find new digs, mostly as renters, not owners. Plus, the foreclosure crisis continues unabated, and the millions losing their homes are looking for new places to live.

Apartment developers may not be able to keep up with this heightened demand, which will force prices upwards, according to Chris Macke, a real estate analyst with CoStar, which tracks multi-family housing trends.

"There will be an envelope of two or three years," said Macke, "when the rise in demand for rentals will exceed the industry's ability to meet it."

Plus, Alford added, "There's been a shift in the American Dream. We're learning from our surveys that a huge proportion of [people are choosing to rent](#)."

They've experienced the downsides of homeownership -- or seen friends and family suffer -- and don't want to take the risks or pay the higher costs of homeownership.

Where homeownership costs are particularly high, there are many more renters than owners. In Manhattan, for example, only about 20% own their homes; in San Francisco, about a third of the population does; in Los Angeles, less than 40%; and in Chicago, about 44%.

There's one factor that could rein in rent increases: the huge number of foreclosed homes that could hit the market over the next few years.

In many markets, like Phoenix and Las Vegas, there are neighborhoods filled with recently built, single-family homes going for fire-sale prices. When the cost of owning homes falls well below the costs of renting them, more people will buy.

"That's always been the biggest competition for rentals," said Deutch.