

Renters transform U.S. housing market

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Scott Olson/Getty Images

By Margaret Chadbourn

Brian Keith is busier than ever as the architecture firm he works for rushes to wrap up work on a 300-unit apartment complex in Dallas.

The project is one of dozens the firm, JHP Architecture, has on its hands — a surge of business driven by a rise in demand in the United States for rental properties.

The increased demand has forced JHP to expand, and it expects to keep hiring at least through the first quarter.

“We’re seeing overall work come back and there’s a backlog of contracts to go through,” said Keith, director of urban design and planning at JHP. “There’s strong interest in multi-family units and plenty of pent-up demand.”

With U.S. unemployment at a lofty 8.6%, home foreclosures rising and property prices under pressure, more and more Americans have given up the dream of owning, opting instead to rent, a shift that is remaking the face of the U.S. housing industry.

The percentage of Americans who own their home dropped from a peak of 69.2% in late 2004 to a 13-year low of 65.9% in the second quarter. It edged up to 66.3% in the third quarter of this year.

On the flip side, the percentage of rental properties that are empty fell to 9.8% in the third quarter from 10.3% a year earlier.

In a recent report, Oliver Chang, an analyst at Morgan Stanley, dubbed 2012 “The Year of the Landlord.”

“Rents are rising, vacancies are falling, household formations are growing and rental supply is limited,” the Morgan Stanley report stated. “We believe the demand for rental properties will continue to grow.”

Groundbreaking for new housing jumped 9.3% in November to the highest level in 19 months, fueling optimism that the battered housing market was regaining its footing.

The gains, however, were almost solely in multifamily housing. Groundbreaking for structures with five or more units shot up more than 30% from October to now stand at nearly double the year-ago level.

Prices reflect the shift in demand. Rental costs are up 2.4% over the last year, compared with an increase of just 0.6% in 2010.

Steve Blitz, senior economist at ITG Investment Research, says the lure of higher returns is spurring the development of apartment buildings. He argued the next “boom” in residential construction has already started.

“The reason rents were rising is that through the past 15 years there has been an under-building of rental properties because typical renters were increasingly able to garner cheap financing to buy a house,” he wrote in a research note.

While the rise in demand is great news for builders and developers, it remains unclear what the pick-up in homebuilding will mean for the economy as a whole.

“Residential construction will be a plus to GDP in 2012, but house price declines will be a negative. So net, net housing will be neutral or a small drag on the economy,” said Mark Zandi, chief economist at Moody’s Analytics.

At its peak at the end of 2005, homebuilding accounted for about 6.2% of overall economic activity. Now, it is only about 2.4%.

U.S. housing starts in April 2009 hit their lowest level on records dating to January 1959. While multifamily starts have given them a lift, 2011 may be the weakest year ever for construction of single-family homes.

“Business is slightly down from last year,” said Bill Zach, a third-generation homebuilder. His family business, the Zach Building Co. in the Milwaukee, Wisconsin, area, is mainly focused on single-family units.

To Zach, that his firm is still in business when so many of his competitors have gone bust represents some success.

“It used to be my competition was every guy that owned a pick-up truck and called himself a builder. Hundreds of them,” Zach said. “That’s no longer the case, those guys are dropping by the wayside.”

But there are signs of a turn and signals that the housing market may be close to finding a bottom.

The Architecture Billings Index, a gauge of future construction, picked up last month, breaking above the 50 level to signal growth in billings.

And the stock of homebuilders, as measured by a Dow Jones index, has shot up more than 30% since early October.

“Residential construction is finally beginning to rise from its post-recession lows,” said Joseph Lavorgna, chief U.S. economist for Deutsche Bank. “The true test for starts and (building) permits, as well as most of the sales metrics, will come during the spring buying season.”