

Demand for Rentals Drives Big Rise in Home Building

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Residential construction surged in November, sparking cautious hope that the U.S. housing market is gaining traction.

Housing starts hit a seasonally adjusted annual rate of 685,000 units, the highest level in 19 months, the Commerce Department said Tuesday.

Starts in November were up 9.3% from October and 24.3% ahead of the November 2010 figure.

While those gains are sizable, starts remain well below the one million to 1.5 million annual pace needed for a healthy market.



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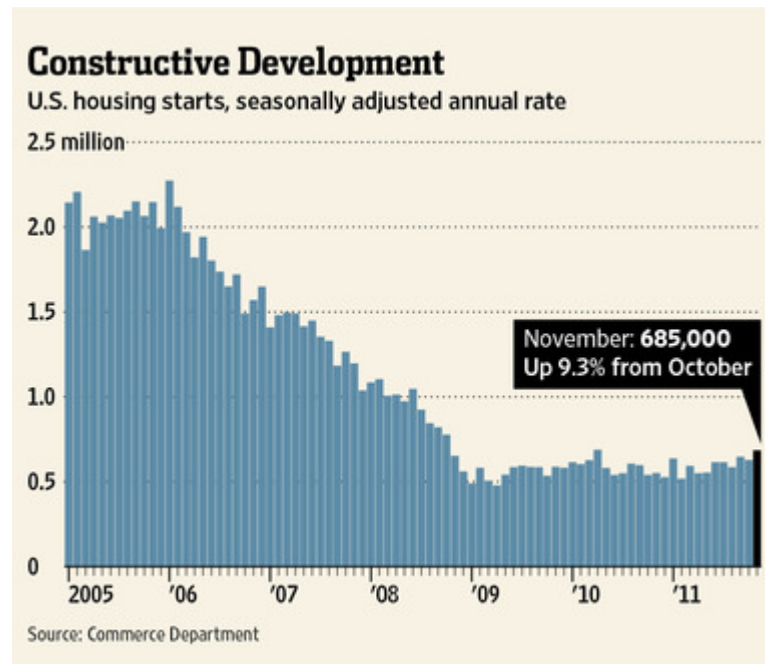
"The upshot is that, while the latest figures are very

encouraging, we aren't getting too carried away about the prospects for home building," Paul Diggle, an economist at Capital Economics, wrote about the data. "Housing starts will continue to improve, but they may not return to the one million mark until 2015 at the earliest."

Much of November's increase came from the construction of apartments, town houses and other multifamily developments, evidence that rising demand for rental housing has encouraged developers to begin building again.

Starts of residential developments with two or more units saw a 25.3% increase, while starts of single-family homes, which make up about 65% of the housing market, rose 2.3%.

The housing data also show that newly issued building permits, a gauge of future construction, climbed 5.7% from a month earlier to an annual rate of 681,000, the highest since March 2010. Economists had expected permits to have fallen in November.



Separately, the Architecture Billings Index, another indicator of future construction, also rose last month. The index stood at 52 in November, up from 49.4 in October. Readings above 50 indicate a rise in billings. The American Institute of Architects, which compiles the index, indicated that the gain is almost entirely due to billings related to residential construction.

The shift to multifamily units is leading some developers that specialize in single-family houses to adapt to the changing market. Lennar Corp., Toll Brothers Inc. and Hovnanian Enterprises Inc. all have

recently built or started multifamily projects. Many smaller builders also are entering the apartment industry.

At Lakewood Ranch, a 30,000-acre planned community between Sarasota and Bradenton, Fla., developers built 7,000 homes during the housing boom. Residential construction ground to a halt in 2006 as the market started to weaken.

Eight months ago, building began anew, but with a focus on rental units. The project currently has a 277-unit apartment building under construction.

"The apartments will fill up very rapidly because they're in demand at the moment," said Rex Jensen, chief executive of the company developing the project.

"It's not as easy to get a home as it used to be," Mr. Jensen added. "There are credit issues for buyers. Also, from an infrastructure standpoint, it's cheaper to invest in an apartment building than in a sprawling subdivision."

Several economists saw Tuesday's numbers as great news for apartment builders and pointed to the shift as a promising augury for the housing market.

"The next 'boom' in residential construction is under way, especially in the South and West, but it is in multifamily rather than single-family homes," wrote Steve Blitz, senior economist with ITG Investment Research. "With the return to rationality in mortgage lending one can think of this as the beginning of a long overdue reversion to the mean."

Fayetteville, N.C., developer Chris Cates, who constructs single-family houses and apartment buildings, primarily for military personnel and their families, said it has been a banner year for apartments.

"Our occupancy rates are great. Right now it's good, to the point that I'm almost worried about the [apartment] market getting oversaturated," Mr. Cates said. "With housing versus apartments, whenever one gets cold, one gets hot, and everyone shifts to what's hot."