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Opportunity in housing moving toward rentals

BY PAMELA SNETRO

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Pamela Snetro

A cozy bungalow on a quiet tree-lined street, fronted by a patch of green lawn and bordered by a ribbon of nodding flowers and a white picket fence: it's been the American dream for decades, but these days that dream seems to be further out of reach. Or is it?

The decline in single family home sales does not mean the end to investment in the home construction industry — just a shift.

Rentals are hot.

Nationally, apartment vacancies have hit a 10-year low and, surprisingly, New Haven's apartment vacancy rate was the lowest of any city in the country at 2.1 percent. The real estate research firm, Reese Inc., reports that the fewest new apartment units came on the market in the U.S. in 2011 in 31 years.

Neighborhoods are changing as a result of the decline in our nation's single family home market. Families losing their single family homes often are becoming renters. As these thousands of people nationwide move from homes they own to homes they rent, they are changing neighborhoods — sometimes for better and sometimes for worse.

Traditionally, apartment renters have been young, folks just starting out. The former homeowners tend to be older with school age children according to U.S. Census Bureau Data.

An increase in rentals can sometimes mean a shift in student population to different schools perhaps even in different communities. Does that mean some communities may have to build new schools?

In Connecticut, foreclosure rates recently were more than 25 percent higher than the national average. From Jan 2011 to Jan 2012 there were more than 2,800 new foreclosures in Connecticut. At the same time our state saw an increase in the percentage of homes more than 90 days delinquent in their mortgage payments, also above the national average. A harbinger of things to come?

And what does all this mean for investors?

Clearly, the increased demand for rental properties offers opportunities for companies selling items such as home furnishings. People buy furnishings when they move. Companies that invest in multifamily home construction also would be deserving increased investor attention.

As well, a host of related industries may stand to benefit, including companies that rent storage space, for example. As renters downsize from a home, they may need to store furniture.

And a relatively new industry is thriving: that of professional downsizers and estate liquidators, who appraise the contents of a home, price the items for sale, advertise them electronically, and hold in-house liquidations.

By the same token, online auction sites are booming too.

Home improvement retailers may benefit as homes are renovated to make them rentable. The federal Department of Housing and Urban Development (HUD) requires that rental units meet specific standards to make them eligible for rent subsidies.

A new report issued by TD Economics, an affiliate of TD Bank, notes that construction of multi-family housing along the East Coast, in particular, will experience significant increases over the next five years.

Demographics, including declining homeownership and previous underinvestment in multi-family construction likely will fuel a stronger recovery in the South Atlantic states such as Florida and Georgia. The report suggests that multi-family housing starts will grow at an annualized pace of 20 percent in the South Atlantic region and 10 percent in the Northeast over the next five years.

Many developers are already responding to this increased demand for apartment construction. Multi-family housing starts have jumped by 59 percent in the last two years nationwide, according to the TD Economics report — a sharp contrast to the single-family starts, which declined 2 percent between 2009 and 2011, the report stated.

While the dream of home ownership may be temporarily relegated to a back burner, the dream of investors to find healthy vehicles for their funding is alive and well.

Pamela Snetro is a financial advisor and first vice president with the Global Wealth Management Division of Morgan Stanley Smith Barney in New Haven. Reach her at 203 786-2126.