



Condo Nation: Why So Few Americans Are Buying Homes

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The housing market is rebounding—at least one piece of it.

Construction of multifamily homes such as condominiums and apartment buildings surged a whopping 51 percent in September as demand for rentals continued to climb, [according to the Commerce Department](#).

"People are moving out of Mom and Dad's basement finally, but they are renting or buying apartments rather than homes," said Jeffrey Greenberg, an economist with Nomura Securities International. "You have to assume another three to five years before the whole housing market recovers because of the enormous foreclosure overhang."

Multifamily starts in September rose to a seasonally adjusted annual rate of 233,000 units, the highest since October 2008, according to government statistics released Wednesday. Single-family housing starts rose 1.7 percent to just a 425,000 annual rate.

Nomura's Greenberg said people are just not ready to assume the downside risk of buying a home even with average mortgage rates at around 4.3 percent.

"This is what happens," said Doug Kass of Seabreeze Partners Management. "The pendulum swings away from home ownership to rentals occurs when home prices drop by 36 percent."

But this is more than just fear of buying overpriced homes, investors said. Banks are pulling back lending because they don't want to be stuck with more homes, even if the rate seems affordable.

"Extremely tight lending conditions for both building and buying new homes, along with stubbornly high foreclosures that are putting downward pressure on home prices, continue to weigh down new construction," said Bob Nielsen, chairman of the National Association of Home Builders, in a press release.

Apartment real estate trusts, such as **Avalon Bay** and **Equity Residential**, have been good investments this year, beating the **S&P 500** and throwing off high dividend income. To be sure, the foreclosure overhang could hit them as well.

"Despite the fact that record numbers of houses are vacant, most are not on the rental market yet," said Peter Schiff, CEO of Euro Pacific Capital. "When that changes, condo construction will fall off."

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