

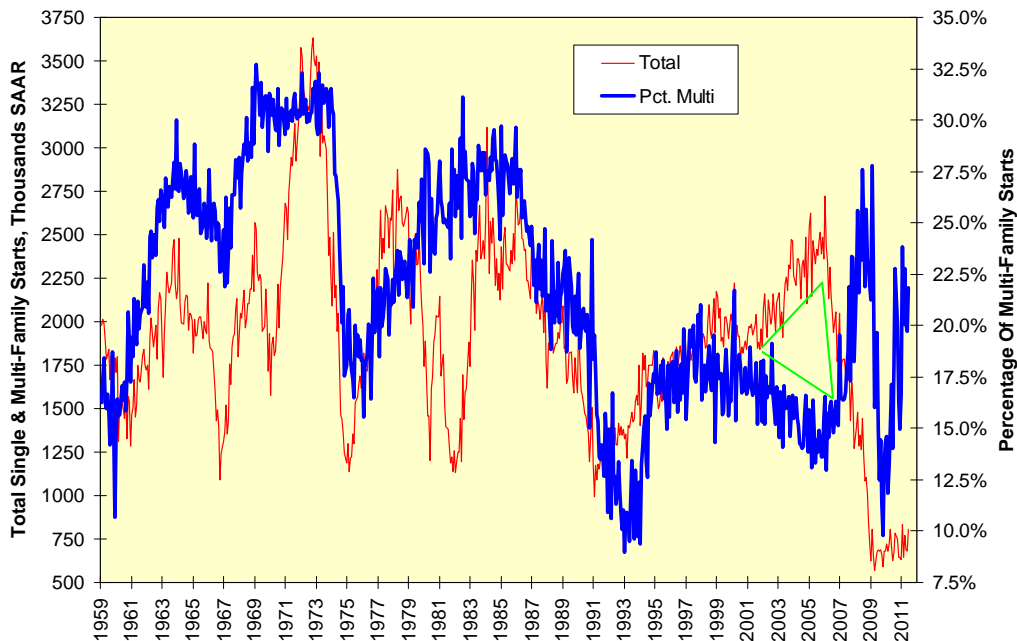
Shift To Tenancy Continues

Urban geography, or how people live when they are jammed together, is replete with factoids. While it is and has been fashionable for a long time to decry automobile-enabled urban sprawl, the opposite was true during much earlier periods. Imperial Rome, for example, had a population density roughly equal to that of modern Hong Kong, and all without the benefits of modern sanitation systems. While we think of apartment buildings as being a modern artifact, they were quite common in Roman cities and even in desert outposts in [Yemen](#) where they had nothing but open land in which to expand. Of course, the same can be said for modern Dubai, home of the world's tallest building.

The U.S. had adopted numerous policies to encourage the ownership of single-family homes beginning in the 1930s and extending through the recent attempts to peg prices over market-clearing levels via first-time homebuyer tax credits and the like. This policy worked all too well as it pushed national homeownership rates up from 63.9% in the third quarter of 1994 to 69.3% in the second quarter of 2004; it now stands at 66.5%. This policy would have been regarded as a success had it not been achieved at the expense of, oh, prudent lending standards. As it stands, we now call it the housing bubble.

Unlike most bubbles, which exist primarily in the minds of those who missed a bull market, this one is visible in the charts as such. If we map total housing starts against the percentage of those starts accounted for by multi-family units, we see a major divergence highlighted by a green triangle during the past decade. Either the U.S. was over-committed to single-family construction, under-committed to multi-family construction, or both.

Constructing For Tenancy



Of course, the pendulum swings the other way over time. As noted [recently](#), apartment REITs have been on a tear as preferences at the margin have shifted from ownership to tenancy and that will attract new multi-family construction. The cynic in me demands that I say new multi-family construction will be over-build, rents for apartments will start to turn lower and the next wave of condominium conversion will be provided with its new raw material.

This will not take place anytime in the next three weeks; this is a long-term scenario that will play out over the next decade. For now, we would have to see total housing starts pick themselves up off the floor and the percentage devoted to multi-family construction rise before we can even begin to think about the next bust.