



“Construction of Multifamily Units Expected to Soar in 2010”

-*Wall Street Journal*, March 2, 2010

Yes, you read that correctly, and no, this isn't a headline from 2006 that got mislabeled as 2010. The housing boom is dead; long live the housing boom!

How do you explain this? Is the recession over? Are builders seeing real demand again? Or is this simply government stimulus money that is creating another construction bubble?

The answer is actually “none of the above.” The recession may or may not technically be over, but this is really a moot point. Unemployment remains high, and final demand for consumer goods, though improving from last year, remains muted compared to years past. And while government stimulus money is popping up in some strange places these days, it hasn't been a major factor in the apartment sector.

So what gives? If the economy is still weak and stimulus money isn't what is supporting the market, have builders lost their minds?

Far from it. The builders are simply looking down the demographic pipeline. As the *Wall Street Journal* writes,

Landlords also are excited about demand. The 20-to-34 age group, prime renting age, is expected to increase by five million in the next decade, according to Hessam Nadji, managing director of Marcus & Millichap, a real-estate-investment brokerage firm. People who moved home or who bunked with roommates during the downturn also might ink leases as the economy improves.

The builders are aware that the Echo Boomers—the children of the Baby Boomers—are currently graduating from high school and college. This massive generation—the largest since the Baby Boomers themselves—are what drove the massive inflation in college expenses in recent years. And they are about to drive a massive boom in apartments and starter houses.

Apartment builders and landlords who are willing to look beyond today's gloom have the opportunity to reap substantial profits in the years ahead by following demographic trends. But the same is true of all professionals and even stock market investors like ourselves.

The key is to identify a durable demographic trend—in this case the graduation of the Echo Boomers from high school and college and their entry into the real world—and then find a way to profit from it.

Sincerely,

Jeremy E. Portnoff

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