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California Homeowner Bill of Rights Signed Into Law

By: Tory Barringer 07/11/2012

California Attorney General Kamala Harris announced Wednesday that Governor Edmund G. Brown signed two provisions of the much-debated Homeowner Bill of Rights into law.

The Homeowner Bill of Rights so far consists of a series of related bills containing provisions that prohibit certain practices by lenders that have been attributed to the state's foreclosure crisis. Chief among the banned practices are robo-signing (signing of fraudulent mortgage documents without review) and dual-track foreclosure (starting foreclosure proceedings while the homeowner is in negotiations to save the home). The bill imposes civil penalties on perpetrators of these activities. In addition, it guarantees struggling homeowners a single point of contact at their lender who has knowledge of their loan and direct access to decision makers.

"Californians should not have to suffer the abusive tactics of those who would push foreclosure behind the back of an unsuspecting homeowner," said Brown. "These new rules make the foreclosure process more transparent so that loan servicers cannot promise one thing while doing the exact opposite."

The laws will go into effect at the start of 2013. Borrowers can access courts to enforce their rights under the legislation.

The Homeowner Bill of Rights also contains a number of bills currently outside of the conference committee process. These other bills enhance law enforcement responses to mortgage and foreclosure -related crime. In addition, some bills are designed to help communities fight neighborhood blight resulting from foreclosures and provide enhanced protection for tenants in foreclosed homes.

The bill, unveiled by Harris in February, builds upon reforms negotiated in the national mortgage settlement between leading lenders and 49 states. Harris secured up to $18 billion for California homeowners in the agreement, some of which was used to establish a Mortgage Fraud Strike Force intended to investigate crime and fraud associate with mortgages and foreclosures.

"The California Homeowner Bill of Rights will give struggling homeowners a fighting shot to keep their home," said Harris. "This legislation will make the mortgage and foreclosure process more fair and transparent, which will benefit homeowners, their community, and the housing market as a whole."

THE WALL STREET JOURNAL.
WSJ.com

CAPITAL | Updated July 11, 2012, 7:51 p.m. ET

Housing Passes a Milestone

By DAVID WESSEL

The housing market has turned—at last.

The U.S. finally has moved beyond attention-grabbing predictions from housing "experts" that housing is bottoming. The numbers are now convincing.

Nearly seven years after the housing bubble burst, most indexes of house prices are bending up. "We finally saw some rising home prices," S&P's David Blitzer said a few weeks ago as he reported the first monthly increase in the slow-moving S&P/Case-Shiller house-price data after seven months of declines.

The U.S. finally has moved beyond attention-grabbing predictions from housing "experts" that housing is bottoming. The numbers are now convincing, according to David Wessel on The News Hub. (Photo: Bloomberg News)

Nearly 10% more existing homes were sold in May than in the same month a year earlier, many purchased by investors who plan to rent them for now and sell them later, an important sign of an inflection point. In something of a surprise, the inventory of existing homes for sale has fallen close to the normal level of six months' worth despite all the foreclosed homes that lenders own. The fraction of homes that are vacant is at its lowest level since 2006.

The reduced inventory of unsold homes is key, says Mark Fleming, chief economist at CoreLogic, a housing data-analysis firm. For the past couple of years, house prices have risen in the spring and then slumped; the declining supply of houses for sale is reason to believe that won't happen again this year, he says.

Builders began work on 26% more single-family homes in May 2012 than the depressed levels of May 2011. The stock of unsold newly built homes is back to 2005 levels. In each of the past four quarters, housing construction has added to economic growth. In the first quarter, it accounted for 0.4 percentage points of the meager 1.9% growth rate.

"Even with the overall economy slowing," Wells Fargo Securities economists said, cautiously, in a note to clients, "the budding recovery in the housing market appears to be gradually gaining momentum."

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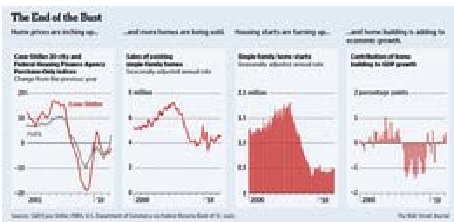
Journal Community

Economists aren't always right, but on this at least they agree: A new Wall Street Journal survey of forecasters found 44 believe the housing market has reached its bottom; only three don't. (The full results of the Journal's July survey will be released at 2pm ET)

Housing is still far from healthy despite the Federal Reserve's efforts to resuscitate it by helping to push mortgage rates to extraordinary lows: 3.62% for a 30-year loan, according to Freddie Mac's latest survey. Single-family housing starts, though up, remain 60% below the 2002 pre-bubble pace. Americans' equity in homes is $2 trillion, or 25%, less than it was in 2002 and half what it was at the peak. More than one in every four mortgage borrowers still has a loan bigger than the value of the house, though rising home prices are reducing that fraction slowly.



Still, the upturn in housing is a milestone, a particularly welcome one amid a distressing dearth of jobs. For some time, housing has been one of the biggest *causes* of economic weakness. It has now—barely—moved to the plus side. "A little tail wind is a lot better than a headwind," says economist Chip Case, the "Case" in Case-Shiller.

From here on, housing is unlikely to drag the U.S. economy down further. It will instead reflect the strength or weakness of the overall economy: The more jobs, the more confident Americans are about keeping their jobs, the more they are willing to buy houses. "Manufacturing had led growth and construction had lagged," JPMorgan Chase economists said last week."Now the roles are reversed: Manufacturing growth has slowed as private construction comes to life."

Plenty could go wrong. The biggest threat is a large shadow inventory of unsold homes, homes which owners won't put on the market because they are underwater, homes that will be foreclosed eventually and homes owned by lenders. They have been trickling onto the market, slowed in part by government efforts to delay foreclosures; a flood could reverse the recent rise in prices. Or the still-dysfunctional mortgage market could get worse. Or overly zealous regulators or a post-election change in government policy could unsettle mortgage lenders or home buyers.

But the housing bust is over.

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A version of this article appeared July 12, 2012, on page A2 in the U.S. edition of The Wall Street Journal, with the headline: Housing Passes a Milestone.

Geithner Wrote Libor Memo in 2008

Fed Weighs More Stimulus

CNNMoney
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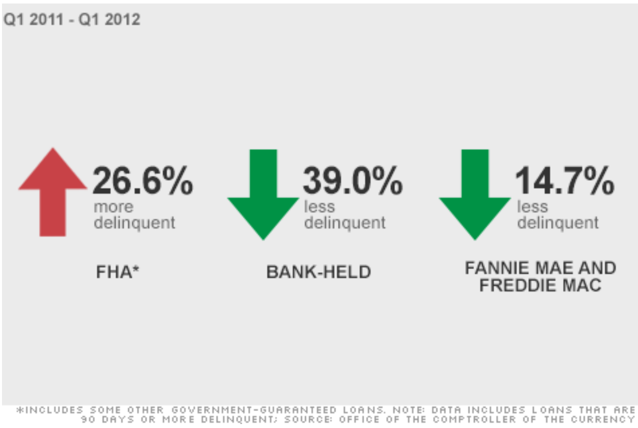
Closer to a bailout? FHA's mortgage delinquencies soar

By Tami Luhby @CNNMoney July 9, 2012: 12:38 PM ET



Delinquencies and foreclosures of FHA-backed mortgages are soaring, putting further strain on the housing agency's finances and making a taxpayer bailout more likely.

NEW YORK (CNNMoney) -- The mortgage market appears to finally be stabilizing -- as long as you ignore loans backed by the Federal Housing Administration.

Increasingly, FHA-insured loans are falling into foreclosure or serious delinquency, moving in the opposite direction of loans guaranteed by Fannie Mae and Freddie Mac or those held by banks, which are all showing signs of improvement.

And taxpayers could ultimately be on the hook for FHA's growing number of troubled mortgages. The agency's finances are already on shaky ground, and additional losses from loans going sour could prompt the need for a **federal bailout**, experts said.

"We can't escape this one," said Joseph Gyourko, a real estate professor at the University of Pennsylvania's Wharton School. "This is an arm of the U.S. government."

The share of government-guaranteed loans, a majority of which are backed by FHA, that were 90 days or more delinquent soared nearly 27% during the year ending March 31. Foreclosures jumped nearly 17%, according to a report published recently by federal regulators.

At the same time, bank loans saw a dramatic improvement, with delinquencies shrinking by 39% and foreclosures declining by nearly 10%. Fannie and Freddie's portfolio also improved as delinquencies dropped by nearly 15% and foreclosures slid by more than 6%, the quarterly report issued by the Office of the Comptroller of the Currency said.

FHA has also had a tougher time successfully modifying loans. More than 48% of government-guaranteed mortgages re-defaulted 12 months after modification, compared to 36.2% of loans overall, the report said.

FHA's risky borrowers: FHA doesn't make loans, but it backstops lenders if borrowers stop paying. With this guarantee in place, banks are more likely to offer mortgages to borrowers with lower credit scores or incomes.

FHA-backed loans made up more than 29% of the market for home purchases in the first quarter of 2012, according to Inside Mortgage Finance, an industry publication.

Housing experts have been warning for years that many FHA-insured loans are not sustainable, especially in these troubled times. That's particularly concerning because FHA's share of the market has swelled in recent years as lenders pulled back on providing mortgages that weren't backed by the government.

One of the main critiques of FHA loans is that they require very low downpayments -- a minimum of 3.5%. In an environment where home prices are declining, borrowers can quickly slip underwater and owe more than their property is worth.

See also: Debt forgiveness preventing foreclosures

"These are very risky loans," said Ed Pinto, resident fellow at the American Enterprise Institute, a conservative think tank. And loans made in the past three years are "moving into the beginning of the peak delinquency period and they are very big books of business."

Unless the economy improves significantly over the next few years, FHA will experience even more delinquencies, said Guy Cecala, publisher of Inside Mortgage Finance.

Little room for failure: The dramatic jump in delinquencies comes despite the agency's efforts to improve the quality of the loans it insures.

Over the past several years, soaring defaults have been eating away at **FHA's emergency reserves**, which cover losses on the mortgages it insures. In fiscal 2009, the reserve fund dropped to 0.53% of FHA's insurance guarantees, well below the 2% ratio mandated by Congress. By late last year, it **had fallen to 0.24%**.

FHA pledged to shore up its standards and its finances in 2009. The agency has since increased its **insurance premiums**, **established minimum credit scores** for borrowers, required larger downpayments from those with credit scores below 580 and banned sellers from assisting borrowers with the downpayment. It also created an office of risk management and cracked down on lenders with questionable underwriting processes.

Despite the emergency fund's diminishing reserves, FHA maintains that its efforts are working. The loans insured starting in 2009 are much higher quality and should lower delinquency levels over time, an FHA official said.

"We expect the new books will continue with their better performance, primarily because of the steps that were put in place," he said. "And we are benefiting from having more high-credit borrowers."

See also: Foreclosure whistleblowers win $46.5 million

Still, FHA watchers warn that the agency doesn't have much of a cushion against these rising delinquencies and foreclosures. And if the losses grow too great, the agency could need a taxpayer-funded bailout.

The FHA says that its reserves should be restored by 2014 barring a second recession, but outside experts aren't so sure.

"They are doing very badly ... there's no two ways about it," said Andrew Caplin, a New York University economics professor who has studied the agency. "Over the next five years, there won't be enough of an economic recovery to fix FHA's finances. Not a chance." ■

Find homes for sale

First Published: July 9, 2012: 5:11 AM ET latimes.com/business/realestate/la-fi-harney-20120708,0,7980530.story

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Two U.S. agencies try to get lenders to ease tough mortgage rules

The Federal Housing Finance Agency and the Federal Housing Administration say many lenders' underwriting restrictions go beyond what the agencies themselves require.

By Kenneth R. Harney

July 8, 2012

WASHINGTON — Two federal agencies with far-reaching influence over the mortgage market are working on a problem that could affect the ability of many consumers to obtain a home loan: How to encourage private lenders to ease up on their underwriting restrictions that go beyond what the agencies themselves require for mortgage approvals.

Both the Federal Housing Finance Agency, which oversees giant investors Fannie Mae and Freddie Mac, and the Federal Housing Administration, which runs the low-down-payment FHA program, are considering steps they might take to persuade lenders to open the mortgage spigots a little wider.

Together, Fannie, Freddie and the FHA account for 90%-plus of all home loan funding. The focus of their little-publicized reform projects: the "overlay" rules many lenders have adopted that call for extra fees, larger down payments and higher credit scores than Fannie, Freddie or the FHA require.

For example, Fannie and Freddie may accept FICO credit scores of 660 to 680, and the FHA will approve applications with scores as low as 580. Yet lenders originating loans for them often want to see scores 100 points higher.

Another example: The FHA recently inaugurated a "streamline refi" program designed to encourage widespread refinancings for borrowers with good payment histories by offering low mortgage insurance fees, no appraisals and no credit checks.

Great idea, but lenders have clamped their own more stringent underwriting restrictions on the program, frustrating consumers. Some banks require full appraisals, credit checks and add-on fees. Other lenders have announced that they are limiting eligibility for the program to customers they already service, despite the fact that the FHA allows borrowers to seek streamline refinancings from any FHA-approved lender.

Why are lenders making it tougher than necessary for creditworthy applicants to obtain a mortgage?

Tops on the list: They are practicing what one prominent mortgage industry consultant describes as "defensive lending."

"Defensive lending is the mortgage equivalent of defensive medicine," where doctors run more tests than needed to reduce litigation risk, said Brian Chapelle, principal at Potomac Partners in Washington, D.C. "Rather than more medical tests, mortgage lenders are adding underwriting requirements and program restrictions to avoid overstepping a sometimes ambiguous line" that will trigger penalties from Fannie, Freddie or the FHA.

Even minor technical infractions in underwriting or documentation can cause "buyback" demands by Fannie or Freddie when loans go into default, with costs per loan for the lender sometimes soaring to hundreds of thousands of dollars. Plus the Justice Department is putting pressure on major banks to pay millions of dollars to settle allegations of systemic flaws in their mortgage practices — settlements the banks consent to not on the merits but to avoid protracted litigation and hits to their stock prices.

On top of this, banks and other originators are uncertain about upcoming mortgage regulations that stem from the Dodd-Frank financial reform law that will spell out the rules for future lending.

In a nutshell, Chapelle says, government agencies and Congress have fostered a play-it-ultra-safe environment, where the pressure is intense to lend only on the most conservative terms, even if that means turning down creditworthy applicants.

What to do? The two agencies are mum about specifics but are expected to announce reforms sometime in the coming weeks.

Lenders, on the other hand, know precisely what they'd like to see. Steve O'Connor, senior vice president of the Mortgage Bankers Assn., says lenders want several key changes in current procedures, including clear, point-by-point guidance on how the agencies will define reasonable grounds for buybacks or indemnification going forward.

Lenders also need assurance that after an agreed-upon period of time — say, 24 to 36 months — they will not be blamed for deficient underwriting on a loan that goes belly up. Some mortgage companies have been confronted with buyback demands on loans that defaulted for economic reasons after seven or eight years of on-time payments. "That's crazy," O'Connor said.

FHA lenders also want greater fairness in the way they're treated when loans default, Chapelle said, including revisions of lender monitoring standards that evaluate them poorly when they try to accommodate borrowers with lower credit scores and other blemishes.

Bottom line: Lenders say they could loosen up a little on underwriting when federal agencies ease their buyback demands. Since the two top agencies are trying to figure how to do this, home buyers might see slightly less punitive "overlay" fees and underwriting later in the year. Don't hold your breath, but it could happen and it just might help you get approved for a mortgage.

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Homeowners offered new earthquake policy options

Kathleen Pender
Published 08:08 p.m., Monday, July 9, 2012

The California Earthquake Authority, hoping to increase the small percentage of people who have quake insurance, has introduced a line of policies called Choice that gives homeowners more coverage and premium options.

For example, homeowners can pay a lower premium if they want to cover structural damage to their dwelling alone and waive coverage for personal property (such as furniture and appliances) and additional living expenses if they have to move out of the house.

The authority's standard policies - which it continues to sell - cover all three types of post-quake expenses, although homeowners can choose whether they want a 10 or 15 percent deductible. They can also choose how much coverage they want for personal property (in amounts ranging from $5,000 to $100,000) and additional living expenses ($1,500 to $25,000).

With the new Choice policies, which debuted July 1, homeowners can cover:

-- Dwelling only

-- Dwelling plus personal property/contents

-- Dwelling plus living expenses/loss of use

-- Dwelling, personal property and living expenses

Homeowners cannot cover personal property or living expenses alone without covering the dwelling (although renters and condo owners can).

On average, a homeowner who covered structural damage would pay a 10 percent lower premium than if he chose a standard policy that covered the minimum $5,000 in personal property and $1,500 in living expenses. Actual savings would vary depending on the home's location and type of construction, says Shawna Ackerman, the authority's chief actuary.

This option might appeal to cost-conscious customers willing to forgo contents and loss-of-use coverage and to people who rent out their homes, says Glenn Pomeroy, the authority's chief executive.

Deductible choice

Choice also lets homeowners choose how they want their deductible applied.

With a quake policy, the dwelling coverage must be equal to the limit on the homeowner's policy that covers all other perils. If your homeowner's insurance will pay up to $400,000 if your home is destroyed by fire, your quake policy also must cover up to $400,000 in structural damage.

With a quake policy, the deductible is a percentage of your policy limit. If your deductible is 15 percent and your policy limit is $400,000, your deductible is $60,000. The steep deductible keeps most people from buying the insurance. But it gets worse.

With a standard California Earthquake Authority policy, structural damage must exceed the deductible before any personal property coverage can be paid - a fact some policyholders might not realize until it's too late.

Suppose your home is insured for $400,000 and you choose a 15 percent deductible and $25,000 in personal property coverage.

If you sustain $50,000 in structural damage and $30,000 in personal property losses, the standard policy pays nothing because you did not meet the deductible - $60,000 in structural damage.

However, if you suffer $70,000 in structural and $30,000 in personal property damage, it would pay $35,000 because your deductible has been met.

Choice gives you the option of having deductibles apply separately to dwelling and contents.

Using the example above, suppose you choose a 15 percent deductible for your structure and 15 percent for your contents. The structure deductible is still $60,000 while the contents deductible is $3,750 (15 percent of your $25,000 contents limit).

In this case, if you sustained $50,000 in structural and $30,000 in contents damage, the policy would pay nothing toward structural repairs but it would pay $25,000 (your policy limit) worth of contents because your deductible has been met.

Policyholder payoff

Having the deductible apply separately costs a bit more than a standard policy - about 12 percent on average for a policy with a minimum $5,000 in contents and $1,500 in living expenses. But it increases the likelihood that policyholders will get some payoff in the event of a quake.

(Coverage of additional living expenses is not subject to a deductible.)

"No more than 1 out of 10 homes in California has earthquake insurance," Pomeroy says. Giving customers more options "is one of a number of initiatives we are working on to increase the value proposition."

The authority is also working on a plan to pay some homeowners to do simple earthquake retrofitting projects. State law requires the authority to put some of its investment returns into a mitigation fund, which would finance the retrofit projects.

Amy Bach of the consumer group United Policyholders says the new policies "add options for that small number of consumers who are willing to buy earthquake insurance. But it doesn't solve the underlying reason people don't buy insurance, which is the deductible and the cost of the product overall."

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THE WALL STREET JOURNAL.
WSJ.com

July 9, 2012, 10:17 AM ET

Fannie Mae: Optimism on Homeownership Improves in June

By Saabira Chaudhuri

Associated Press

Americans' attitudes towards the housing market are continuing to improve, despite stalling optimism about the economy and personal finances, according to a monthly survey by Fannie Mae.

The mortgage-finance company's survey of 1,001 Americans last month found that 73% believe it is a good time to buy a home, edging up from 72% of the respondents in May. Meanwhile, the percentage of respondents who said it is a good time to sell remained at 15%.

"Although this positive trend may be short-lived if the general economy falters, one might ask whether consumers are increasingly seeing the current environment as a unique opportunity to buy a home while home prices remain depressed, rental costs are increasing, and interest rates are near historic lows," Fannie Mae Chief Economist Doug Duncan said.

The company said 37% expect home-mortgage rates to rise over the next year, a decrease from the prior month when 41% thought so. Meanwhile, 35% think home prices will go up in the next 12 months, the highest level since the survey's inception.

Consumers predict, on average, that home prices will increase 2% over the next 12 months, up from 1.4% in May.

The percentage of respondents who said they would buy rose to 69% from 63% in May–also the highest level since the survey began–while respondents who said they would rent if they were going to move decreased to 27% from 32%, the lowest level recorded since the survey began.

Write to Saabira Chaudhuri at saabira.chaudhuri@dowjones.com

The New York Times

June 21, 2012

Increased Interest in Expanded HARP

By VICKIE ELMER

MORE homeowners who are “underwater,” or owe more on their homes than they are worth, have been taking advantage of an expanded Home Affordable Refinance Program to refinance their loans and obtain lower interest rates, according to a recent government report.

Industry experts expect that the numbers will continue to grow now that qualifications have been loosened.

According to the June report, by the Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac, in the first quarter 180,000 mortgages were refinanced through what is known as HARP 2, almost double the 93,000 in the fourth quarter of 2011 and the highest quarterly number since the HARP program started in 2009.

HARP was created by the federal government to help homeowners, whose mortgages are owned or guaranteed by Fannie and Freddie and made before May 31, 2009, refinance into loans with less onerous terms.

The program was expanded last fall with several modifications, including the removal of certain fees and a second appraisal, and an extension of the deadline to Dec. 31, 2013.

In addition, the cap was removed on the loan-to-value ratio. When the program began, there had been a ceiling of 125 percent, meaning loans could not be underwater by more than 25 percent. (Underwater loans are more than 100 percent loan to value.)

“You’ll see an explosion in that above-125-L.T.V. category,” said Andrew BonSalle, a senior vice president of Fannie Mae and the head of its underwriting and pricing.

Since the beginning of the year, 4,400 loans with L.T.V.’s greater than 125 percent were refinanced, according to the Federal Housing Finance Agency report. And of the 180,000 total HARP refinancings in the first quarter, 41,000 were to New Jersey homeowners and 32,000 to New York.

"There's a lot of borrowers who don't believe they're eligible," Mr. BonSalle said, adding that lenders need to keep reaching out to underwater homeowners so they know they can participate.

He noted, however, that because of the boom in HARP 2 refinancing combined with other refinancing, thanks to historically low interest rates, some lenders have been facing large application backlogs. Underwater homeowners will, therefore, need to be patient with their lenders.

"HARP business is very strong," said Kevin Watters, a senior vice president and the head of mortgage originations at JPMorgan Chase.

"Homeowners should refinance while interest rates are still low," Mr. Watters added, explaining that customers can supply much of the necessary information through a secure Web site in addition to personal interviews.

Like many other lenders, JPMorgan Chase has been focused on offering HARP refinancing to current customers whose mortgages are serviced by the bank. Borrowers can also contact any participating lender, though finding one that accepts HARP applications from new customers may be challenging.

Mr. Watters said that Chase was mailing letters to customers who prequalified for a HARP 2 refinancing. The letters offer borrowers reduced rates with no closing costs and closing in 30 days, assuming homeowners can show verification of employment.

Under the federal guidelines, HARP borrowers must also be current on their monthly mortgage payments, though they may have had one late payment, provided it occurred at least six months before they applied to the HARP program.

Homeowners with private mortgage insurance will generally be allowed to carry that over to the new refinanced HARP loan, Mr. BonSalle said.

But borrowers with a second mortgage must get the lender of that loan to agree to the HARP refinancing.

THE WALL STREET JOURNAL.
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REAL ESTATE | July 5, 2012, 12:35 a.m. ET

Rents Increase as Vacancies Dry Up

By DAWN WOTAPKA

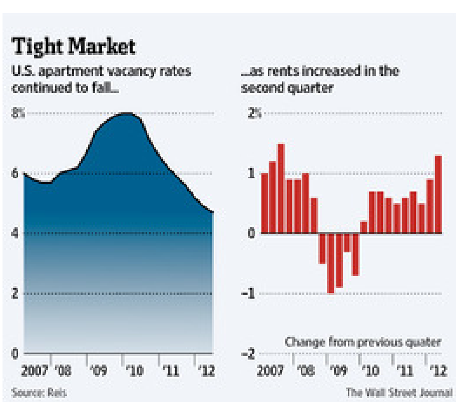
Landlords boosted apartment rents to record levels in the second quarter as demand from tenants sitting out the home-buying market pushed vacancy rates to their lowest point in more than a decade, according to a report to be released Thursday.

Despite the sluggish economy, average rents increased in all 82 markets tracked by Reis Inc., a real estate data firm. Average rents are now at record levels in 74 of those markets and now top $1,000 a month on average in 27 of them, including Miami, Seattle, San Diego, Chicago and Baltimore.

The biggest rent boost of the second quarter was in New York City, where the average rose to $2,935 per month, up 1.7% from the first quarter. Apartment rents also increased in markets that have been hard hit by the economic downturn such as Las Vegas and Phoenix, where they rose 0.9% and 1% respectively in the second quarter. The lowest average rent among the markets surveyed was Wichita, Kan., where the average was $510 a month.

"The market is in a very tight position," Reis said in a research report. "There is a paucity of available units."

The nation's vacancy rate fell during the quarter to 4.7%, its lowest level since the end of 2001, Reis said. That's down from 4.9% in the first quarter of this year and from 8% in 2009, when millions of would-be renters were doubling up or living with family.



With the economy slowly recovering, more people are looking for their own places. But many are opting to rent rather than buy due to tighter lending standards—including higher down payments—and because of concerns about job security.

Market psychology also has shifted greatly from the boom years, when buyers were concerned that prices would rise if they didn't move fast. Today prices are stagnating—or even falling in some markets—so buyers are asking: what's the hurry?

"I'm just not ready for those roots yet," said Tiffanie Salisbury, who is looking for a rental in Atlantic Highlands, NJ., hoping to pay about $1,100 a month. "I'm 31, and I don't know where life's going to take me."

Reis said that this is only the third quarter in over three decades that the vacancy rate has been below 5%. When vacancies fall to this level, landlords typically accelerate rent increases "and that is exactly what is transpiring," the Reis report states.

And it's not likely to stop soon. Rents could "spike as landlords perceive that tight market conditions afford them greater pricing power over tenants," Reis said.

Values of apartment buildings are soaring, contrasting sharply with the single-family housing market. In some cities, investors are now surpassing peak prices for rental property buildings. "We continue to be optimistic in both the near and long term for apartments," said Scott Anderson, senior director of global real-estate asset management with TIAA-CREF, which spent $800 million on apartments last year and could spend more this year. "All of the underlying demand drivers are positive. The supply and demand equilibrium is in a good place. Rents are moving in the right direction."

Analysts point out that the apartment sector may lose steam if the economy weakens further and tenants begin doubling up again or put up more resistance to rent hikes.

Demand for rental apartments also may fall if some builders succeed with appeals to move renters into the market for single family homes. Home builders have begun marketing to renters: PulteGroup Inc., one of the nation's largest publicly held builders, recently introduced a line of homes marketed as being more affordable than some monthly rents.

Another risk: construction. Developers are racing to deliver new apartment supply, particularly in hot markets including Washington, D.C, and Seattle. Zelman & Associates expects 235,000 units to be started this year, followed by 285,000 in 2013and 320,000 in 2014.

Should too many units flood the market, landlords could be forced to offer concessions to fill units, such as free rent or a flat-screen televisions. Construction is "a wild card, definitely," says Luis Mejia, the CoStar Group's director of multifamily research.

Write to Dawn Wotapka at dawn.wotapka@dowjones.com

A version of this article appeared July 5, 2012, on page A3 in the U.S. edition of The Wall Street Journal, with the headline: Rents Increase as Vacancies Dry Up.