Housing Woes Lift Outlook for Apartment, Home-Rental Stocks - WSJ

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Slumping home sales and rising interest rates are brightening the outlook for apartment and home-rental stocks.

On Friday, the National Association of Realtors said sales of existing homes in September fell 3.4% from the previous month and 4.1% from a year earlier. The seventh-consecutive monthly decline was steeper than economists had expected and marks the latest in a string of data points that call into question the housing market's momentum.

Economists and analysts blame rapidly rising home prices that have strained affordability in many cities. The Trump administration's tax bill reduced incentives to own. And mortgage rates rose this month to about 5%, their highest level since the depths of the foreclosure crisis in 2011.

Some analysts recommend getting out of housing stocks altogether. "The potential downside risks are greater than the upside reward potential," Wells Fargo analysts wrote last week in a note to clients suggesting that they move out of real-estate investment trusts and seek refuge in shares of large U.S. companies.

Yet other analysts argue that all the gloom hanging over housing is good news for owners of apartments, like AvalonBay Communities , which is up 7.4% over the past six months, and Equity Residential , which has added 5.7% in that time. Rental-home companies have also gained, with American Homes 4 Rent climbing 3.8%.

"Having pressure on home sales is a positive for the rental side of the industry," David Singelyn, American Homes chief executive, told investors recently. "It should all fare very, very well for pricing power going forward."

The percentage point added over the last year to 30-year mortgage rates adds about $135 to the monthly payment on a $250,000 house financed with a 10% down payment, said John Pawlowski, an analyst at Green Street Advisors.

Not only is the added cost likely to keep some renting longer, $135 is about 8% of the average monthly rent collected by American Homes, suggesting that there is room for these companies to raise rents and remain less expensive than comparable homes for sale, he said.

“The insulation for the rental landlord looks pretty good heading into next year,” he said.

To that end, Freddie Mac said last week that about 78% of Americans view renting as more affordable than owning, a rise of 11 percentage points since the mortgage company released similar survey data six months ago. Freddie also said the proportion of respondents who said they have no plans to buy homes also rose.

Plenty are looking to rent, though. Sean Dobson, CEO of closely held Amherst Holdings, said that the last 1,000 houses that the firm’s Main Street Renewal unit has listed for rent have elicited about 70,000 inquiries from prospective tenants, or about 70 per property.

Apartment owners too are reporting few problems filling up buildings and retaining tenants despite a surge in multi-family construction. A big reason: since the end of the 2007, there have been some 7.4 million households formed that rent, compared to about 2.3 million that own their homes, according to U.S. Census Bureau data.

Affordability among twenty-somethings is also an issue. “Poor credit, record high student debt, lack of savings for a down payment and, frankly, the ability to save for a down payment, and desires for flexibility and mobility are all reasons why millennials are choosing to rent versus buy today,” said Ric Clark, chairman of Brookfield Property Partners, which owns about 35,000 U.S. apartments.