HEARD ON THE STREET

Property Investors Bed Down in the Family Home

Big investing firms aren't crowding out normal house buyers yet, but they are likely to become more controversial players in the residential market

By *Carol Ryan*
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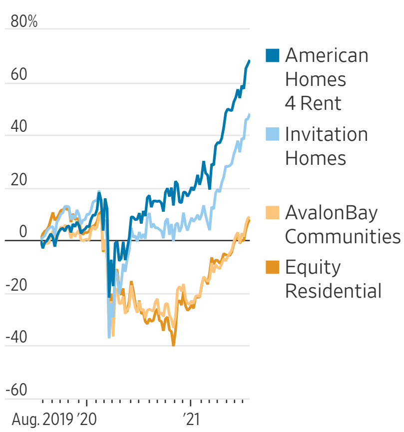
Wall Street firms are more eager than ever to buy family homes. If they snap up existing supply rather than help build new dwellings, they risk killing their latest golden goose.

Last week, Blackstone's real-estate investment trust bought a portfolio of apartments for $5.1 billion from insurer American International Group. In June, the investment firm spent $6 billion on Home Partners of America, a company that owns more than 17,000 houses across the U.S. and offers renters an option to buy. Private-equity giant KKR launched a new division that will buy homes to rent them out, Bloomberg reported.

Family Homes Beat Apartments
Share-price performance of residential REITS



Source: FactSet

Meanwhile in Europe, property investors are increasing the share of their portfolios invested in residential real estate, and German landlord Vonovia recently launched an €18 billion takeover of competitor Deutsche Wohnen, DWNI 0.39% ▲ equivalent to $21.2 billion.

Although rented homes are becoming a hot trade among big investors, the trend isn't new. Blackstone made lucrative bets on foreclosed houses in the aftermath of the 2008-09 downturn. And there isn't evidence yet that institutional investors are crowding out average home buyers. They bought just one in 500 U.S. homes sold in the 12 months after the Covid-19 crisis began, according to Amherst Capital.

However, big investors' activity will increase now that the pandemic has made owning family homes more attractive. While the rents collected from commercial real-estate assets such as malls and offices took a hit during the Covid-19 crisis, most private residential tenants continued to pay up. Family homes could be an even better long-term bet than owning e-commerce warehouses. Real-estate research firm Green Street estimates that renting out U.S. single-family homes will deliver annual returns of 6.6%—versus a forecast of 6.3% for industrial property.

Buying up homes solves several headaches for powerful investors. Housing is a large asset class so can mop up a lot of excess cash. The submarket for rented single-family homes alone is worth approximately $3.1 trillion, according to Amherst—40% larger than the value of all U.S. offices and more than triple the value of all the country's hotels. Renting out homes is also a good hedge against inflation. Over the past four years, rents have increased by 15% on average across Europe, Colliers data shows.

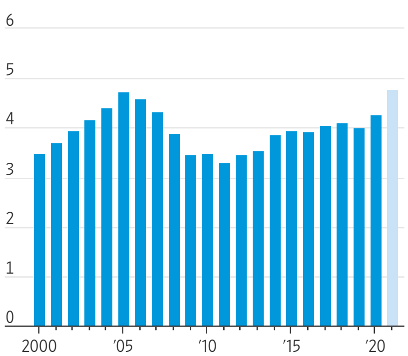
Invitation Homes and other owners of rental houses have delivered better returns than competitors that rent out apartments.
PHOTO: ANDY JACOBSOHN FOR THE WALL STREET JOURNAL

It's unclear how many family homes the financial giants can snap up before there is a public backlash. Institutional investors already own 55% of the U.S. supply of multifamily homes, typically condos. However, they are minnows in the most appealing part of the housing market: Currently, just 2% of all the single-family properties available for rent in the U.S. are in the hands of institutional investors, according to Amherst.

Throughout the pandemic, publicly traded real-estate investment trusts that specialize in these kinds of family dwellings such as Invitation Homes and American Homes 4 Rent have outperformed those like AvalonBay that own apartment blocks.

But housing is politically sensitive, especially as skyrocketing prices over the past 18 months have put homeownership out of reach for more voters. As a multiple of household income, the median U.S. home is now pricier than in the run up to the 2008 housing crash, UBS analysis shows. Any sign that big investors are making it harder for ordinary buyers to get on the property ladder will be controversial.

Less Affordable
Median U.S. home price as a multiple of median household income



*2021 to date
Sources: National Association of Realtors, Haver, U.S. Census Bureau, UBS

Some governments are already tightening the screws. Since real-estate investor Round Hill Capital bought newly built homes in Ireland that would normally be marketed to first-time buyers, the country's politicians have raised property taxes to stop institutional investors from snapping up family dwellings. Rent regulations are being considered in large Spanish cities like Madrid and Barcelona to cap spiraling housing costs.

The best way for big investment firms to get exposure to residential property without provoking a crackdown is to help build new supply. Some got the message: British bank Lloyds recently said it would invest in rented property to diversify its income, but added that it plans to build most of its portfolio from scratch. Blackstone's purchase of AIG's portfolio of apartments for low-income tenants looks more contentious.

The rub is that easing the housing shortage isn't actually in investors' financial interest. A lack of supply, coupled with the fact that more young families are priced out of homeownership, is precisely what will drive the fat returns expected in rented real estate over the next few years. Adding new supply could make these bets less lucrative and would also mean taking on development risk just as construction costs are rising sharply.

But to venture into such touchy real estate, investors must weigh this trade-off to avoid being ejected from the family home.

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