



10-1-25

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Of the homes that were for sale this summer, 2.3% ultimately switched to rentals. DUSTIN CHAMBERS FOR WSJ

'Accidental Landlords' Vie With Pros

Problems in the for-sale housing market are starting to infect the rental business

Big corporate landlords have unwelcome new competition. Regular homeowners who can't sell their properties are renting them out instead, and the growing number of "accidental landlords" is a headache for pros.

Rents in the top 20 U.S. markets for single-family homes are expected to rise 0.8% this year, according to John Burns Research & Consulting. That would be the slowest pace since 2011, when job losses caused by the financial crisis made it hard to increase rent.

This isn't what many investors penciled in. Owning single-family homes should be a sure bet because so many young families are priced out of the market and stuck renting. Tenants' finances look healthy based on rent-to-income ratios. And occupancy rates and retention remain historically high for single-family rentals.

But supply is starting to leak from the for-sale market into the rental business, depressing rents.

As more homes are put up for sale, owners are finding that demand isn't there at the prices they expected. Of the 3.06 million properties listed at the start of this summer, only 28% sold, based on data from housing analytics firm Parcel Labs. That leaves 1.96 million homes left on the market going into the fall, one-fifth higher than this time last year.

Realistic sellers will cut the price. Others are either delisting their properties to wait for market conditions to improve, or becoming accidental landlords: 2.3% of the homes that were for sale this summer switched to rentals. The share is higher in certain Sunbelt cities where conversions to rentals topped 5%.

This is a problem for big institutional investors that are heavily exposed to the region. More than one-third of their portfolios are concentrated in just six cities: Atlanta, Dallas, Phoenix, Houston, Tampa, Fla., and Charlotte, N.C., Parcel Labs analysis shows.

Invitation Homes, one of the largest single-family housing landlords in the U.S., reported falling rents for new leases in several cities in Texas and Florida this year, including Tampa, Orlando, Jacksonville and Dallas. These are some of the most oversupplied housing markets in the country.

The number of homes for sale in Dallas and Tampa in August was 25% and 39% higher, respectively, than in August 2019. Rental listings are up sharply in both markets. "Historically, when the for-sale market slows and there is lots of inventory but not much demand, you get leakage into the single-family rental industry," says Rick Palacios, director of research at John Burns. Invitation Homes

and **American Homes 4 Rent** are seeing healthy rent growth in the Midwest and parts of the West Coast. They are charging their existing tenants more nationwide to offset falling rents for new move-ins. For example, Invitation Homes raised the rent 6.2% for in-place tenants in South Florida this year, while new residents got a 0.2% price cut.

This is working for now, and retention rates remain high. But as the gap between in-place rents and new leases grows, the financial incentive to move will rise. This could lead to higher turnover and lower income for landlords.

The stocks of single-family landlords are underperforming the S&P 500 as well as apartment landlords and home builders.

Ironically, single-family landlords might need lower mortgage rates to soak up the excess inventory in the for-sale market that is now trickling into rentals. But cheaper mortgages will also push up vacancy rates if more tenants find themselves in a position to buy a home.

Meanwhile, the number of home transactions has fallen to levels not seen since the 1990s, and the "shadow inventory" of unsold homes is building in the rental market, along with delistings.

Even with a record population of renters, landlords will struggle in such a dysfunctional housing market.

—Carol Ryan

0.8%

Expected rise in rents in the top 20 U.S. markets for singlefamily homes this year

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