

A Housing Bargain Hides in Plain Sight

A bill that would limit the activities of big investors in the sector has turned Wall Street landlords into a value play. Investors with a stomach for political risk can get 30% off the price of U.S. homes right now.

That is the discount on the portfolios of Wall Street landlords who are being threatened with eviction from parts of the housing market. Shares of Invitation Homes and American Homes 4 Rent, which together own around 140,000 single-family homes, are trading well below the value of their assets, according to real-estate research firm Green Street.

Invitation Homes' current share price implies investors are valuing properties that could fetch \$400,000 in today's housing market at just \$280,000, the company's finance chief, Jonathan Olsen, said at a recent conference. The last time the median-priced home cost \$280,000 was back in 2014. Note

The two companies have been trading below their net asset value since mortgage rates rose in 2022. But the discount widened after President Trump posted on social media in January that he will ban large investors from buying family homes.

Plans to restrict the companies' activities in the housing market have been fleshed out in a bill that was recently passed by the Senate. The 21st Century Road to Housing Act has dozens of provisions meant to improve the supply and affordability of housing.

One getting a lot of attention is a ban on investors that own more than 350 family homes from buying any more, except under certain conditions. They are allowed to buy run-down homes that have structural problems, once they spend at least 15% of the purchase price on renovations.

There is also an exemption for landlords that help tenants to eventually get onto the property ladder. This might be a program in which a renter stays for an agreed number of years in return for a lump sum at the end of the tenancy that can be put toward a down payment. Big landlords are hopeful that complying with this provision will allow them to stay active in the market.

The bill will also let institutional investors build new homes from scratch and rent them out. But they will be forced to sell after seven years.

This will make the build-to-rent business "uninvestible," according to industry executives. Property prices are sensitive to what is happening in the economy and with interest rates, so losing the ability to decide when to sell is a nonstarter.



A construction crew works on framing and siding of an American Homes 4 Rent house in Georgia. DUSTIN CHAMBERS FOR WSJ

Sending powerful investors packing may be the point of the bill, but it seems counterproductive. With home prices high, Wall Street investors aren't buying much from the existing housing stock these days.

Instead, they have pivoted to a build-to-rent strategy and have added more than 300,000 new homes to the market over the past decade, data from John Burns Research and Consulting shows. Jeopardizing any source of new supply is odd for a bill that is trying to make housing more affordable.

Shareholders are understandably spooked but it may be a good time to buy the stocks. Controversial parts of the housing bill, such as the seven-year-sale rule, could be scrapped in the House of Representatives. Even if that doesn't happen, landlords could get a boost if the bill reduces the supply of build-to-rent homes: Fewer houses being built will push rents higher.

Acquisitions are on hold until there is more clarity about the bill. Until then, Invitation Homes and American Homes 4 Rent will continue selling homes to regular buyers at high prices and use the proceeds to buy back their discounted shares.

An additional bonus for valuehunting investors: Both stocks have dividend yields above 4%.

Curbing Wall Street investors from the housing market is popular with voters and is one of the few issues that Republicans and Democrats can agree on. Owning these stocks will be tricky in an election year.

But portfolios of homes trading at 2014 valuations means the bad news is already in the price.

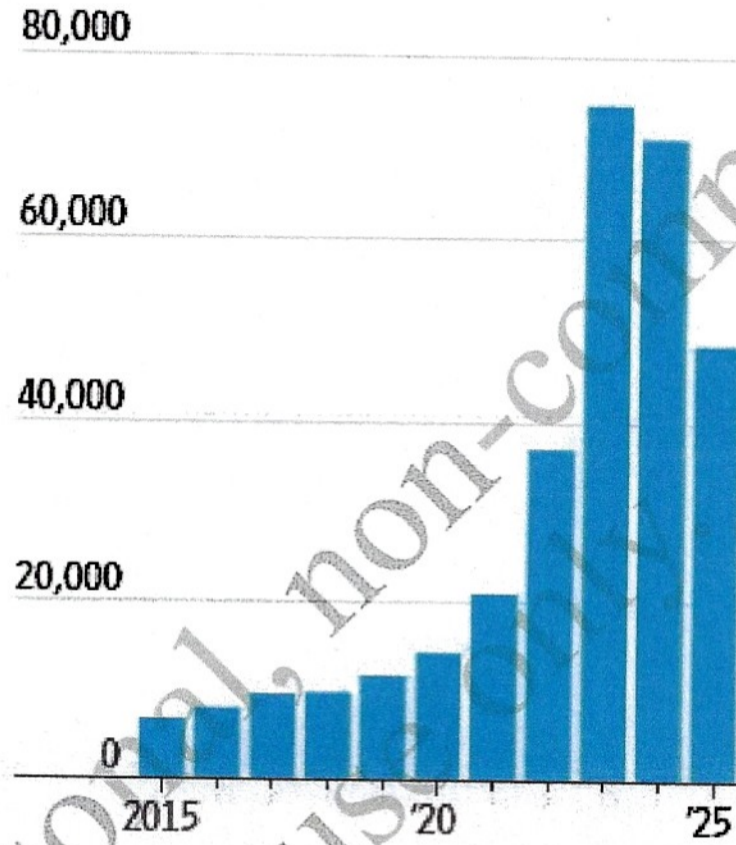
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Build-to-rent home deliveries



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