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A weak spring home-selling season suggests rents will increase. TAMIR KALIFA FOR WSJ

Pricey Homes Are a Boon for Landlords

America's renter population has hit a record because fewer people can afford to get on the housing ladder

Chances are you haven't received an invitation to a young friend's housewarming party in a while.

That is because the number of first-time home buyers is dwindling. The upshot is a potential reversal in housing-related stocks.

Since mortgage rates began to rise in 2022, home builders have been a much better investment than apartment REITs. That is likely to now flip.

Vacancy rates are falling again in the rental market after more than a year of oversupply, which should help landlords push up rents. This should benefit stocks such as **Equity Residential** and **AvalonBay Communities**. Meanwhile, building stocks are losing some of the advantages they have enjoyed.

On average, 2.1 million people a year became first-time buyers over the past two decades. Many moved to homeownership straight from the rental market.

Unaffordable house prices and high mortgage rates have slowed this flow since 2022. There were 1.1 million first-time buyers last year—380,000 fewer than in 2023 and almost half the historical norm, data from the National Association of Realtors shows.

This year could be even worse judging by the weak spring homeselling season. Based on sales through May, the U.S. is on track to sell 4.03 million homes in 2025, fewer than last year's tally, which was the lowest since 1995.

The sharpest slowdown is happening among properties that cost less than \$500,000, NAR data shows. That is the price range that usually attracts first-time buyers.

The market for newly built homes also is slumping. In May, sales dropped 6% compared with the same month of 2024.

This part of the housing market is a good proxy for how first-time buyers are feeling because builders have grown more dependent on demand for starter homes. Firsttime buyers' share of new-home sales has doubled in recent years to around 40%, according to the National Association of Home Builders.

Big home builders with financing arms such as D.R. Horton targeted young buyers by offering mortgage-rate buydowns that make monthly repayments more affordable. But these sweeteners are no longer working as well as they used to.

Builder Lennar said it had to offer incentives equivalent to a 13.3% price discount in its second quarter to entice buyers—the highest rate since 2010. This is eating into builders' profit margins.

The flip side of sluggish demand from first-time home buyers is a rapidly swelling population of tenants. In a bullish sign for landlords, the number of renter households in the U.S. has reached a record 46 million.

At least 1.2 million of these households could be "trapped renters" who would like to buy, based on the above-average renter household formation seen over the past three years.

The true extent of pent-up demand to buy is probably much greater. Gen Z and millennial Americans have lower rates of homeownership than baby boomers did at the same stage of life.

Barring a fall in mortgage rates or a major recession that pushes down property values, homeownership could remain out of reach for a while.

At today's prices, buyers would need to earn \$127,000 to afford the monthly mortgage repayments on a median-priced home, up from \$79,000 in 2021, according to Harvard's Joint Center for Housing Studies. Only 6 million of the country's 46 million renters clear this hurdle.

A fresh obstacle to homeownership is emerging: Credit scores recently took a hit after a pause on reporting student-loan delinquencies to credit agencies ended.

This caused the delinquency rate on the outstanding balance of student loans to jump to 8% in the first quarter, up from 1% previously. Around 2.4 million newly delinquent borrowers who would have qualified for a mortgage before the reporting change will no longer be eligible, according to the Federal Reserve Bank of New York.

With more households stuck renting, apartment vacancy rates are falling. This should help landlords recover from a glut that kept a lid on rent growth for the past 18 months. The stage is set for fresh rent increases as the market tightens.

Granted, huge pent-up demand among American tenants to buy a home is a risk for apartment landlords in the longer term. Once homes become more affordable, there could be an exodus from the rental market.

This would swing the pendulum back in favor of owning homebuilding stocks. For now, though, apartment landlords will be the only ones to benefit from America's broken housing market.

—Carol Ryan

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