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Renting Is the New American Dream

Owning a home has long been the quintessential American Dream. But things have changed. More and more Americans are deciding of their own accord to live in rental housing. This opens up a number of promising opportunities for investors.

Whether it was a sprawling home in the South, a row house in a suburb of an East Coast metropolis, or a modest bungalow in the Midwest, owning a home was the pinnacle of the American Dream for decades. Although renting has long been accepted in many parts of Europe – particularly in the German-speaking countries – people in the United States generally choose to own a home, if possible. Rentals were either considered a second-class alternative for those who could not afford their own homes or a temporary solution for young people getting ready to start a family, at which point it went without saying that they would buy their first home.

However, this view has changed in the United States as well. "A growing number of people no longer view renting as a temporary phase, but instead are intentionally choosing to rent because this type of housing offers a more flexible lifestyle than owning a house," states Robert Pinnegar. As CEO of the National Apartment Association (NAA), he represents the interests of owners of rental buildings. Independent sources also underscore Pinnegar's statement: According to official statistics from the United States Census Bureau, the home ownership rate has dropped from 69.1 percent in 2005 to 64.2 percent in Q1 2018.

How Renting Became Cool

The fact that more than one-third of Americans now live in rented housing is a product of the subprime crisis. Generous lending, even to households who could not actually afford home ownership, led to severe turbulence on the US real estate market in 2007/2008 and ultimately to the worldwide financial crisis. Lenders reacted by tightening up credit requirements on borrowers. "Higher credit standards rein in purchases of owner-occupied housing," experts from real estate consulting firm CBRE determined in a recent publication ("U.S. Multifamily Housing: A Primer for Offshore Investors"). They also state that the challenge is particularly great for Millennials (those born after 1980), who are under considerable financial strain due to the repayment of student loans, which are typically large in the United States.

Still, the trend toward renting is not exclusively attributable to a lack of equity. Instead, more and more US residents are choosing rentals of their own accord, although they could easily afford a house or a condominium of their own. "Renting today enjoys much more social acceptance than in previous generations," the CBRE experts concluded in their study. Many people, they explain, have realized that as tenants, they can be substantially more flexible if they have to move due to a job change, for instance. The trend toward large cities, which is currently also apparent in the US, is another factor. Because there are relatively few condos there, rentals are gaining importance.

The drivers? Millennials and Baby Boomers

These two populations above all are driving the demand for rental apartments. For those born in the later part of the 20th century, the high cost of attending college is one issue, along with changes in life plans. “Millennials are delaying key life decisions such as purchasing a home, and they are much more mobile than their parents were,” says Jay Martha, Managing Director and housing market expert at investment company TH Real Estate. The statistics back up his assessment: Men in the United States now marry at an average age of 29.5, while women are 27.4 years old. Compared to ten years ago, that is a two-year increase in the average marriage age.

The demand for rental units also stems from Baby Boomers (those born between about 1945 and 1965), who are already retired or are nearing retirement age. Many of them no longer want the time-consuming and expensive burden of caring for a house and garden, and instead are moving to urban neighborhoods with good transportation, so they can quickly reach restaurants, theaters and medical facilities. These older residents also value the comfort that rental apartments provide, according to Robert Pinnegar of the National Apartment Association: If something goes wrong, they no longer have to fix it themselves and can simply call building management to take care of it.

In CBRE’s opinion, this rethinking process is resulting in growth in demand for rental units with higher quality amenities in particular. And this is precisely what Swiss investment company ACRON in cooperation with its partner American Residential Group is offering at The Carolyn project in the Dallas/Fort Worth metropolitan area. By the middle of next year, 319 luxury rental apartments with excellent connections to transportation will be constructed in Las Colinas urban center in Irving.

“We have been familiar with the local market for decades and have already completed many projects there successfully,” says Greg Wilson, CEO of ACRON USA.

Liquid Market with Opportunities

The fact that an increasing number of Americans can imagine living in rental units unlocks great opportunities for investors, especially since real estate market statistics also show that the rental market is hardly in the shadow of the rest of the market. “This is a highly liquid sector with an annual transaction volume of over USD 150 billion,” states TH Real Estate’s Jay Martha. CBRE found that residential properties worth USD 35 billion changed hands in the United States in the first quarter of 2018 alone. All told, the consulting firm puts the size of the market in the 62 largest metropolitan areas in the country at 14.5 million residential units. The total value of US rental units is estimated by the National Multifamily Housing Council (NMHC) to be USD 3.3 trillion.

However, foreign investors have merely scratched the surface of the potential in this market. In 2017, only around 4 percent of US multifamily housing stock was owned by non-Americans. This means international investors were letting attractive return opportunities slip through their fingers. An analysis by CBRE indicates that the rental market produced an average annual long-term total return of 9.75 percent (1992 to 2017), which is higher than the return for other asset classes such as hotels (9.61 percent), retail properties (9.44 percent), and office buildings (8.38 percent).

In addition, the US housing market is largely free from government intervention. Whereas in Germany the public sector intervenes in the housing market with policies such as rent control, comparable tools are used in the United States only in certain cities, and there only in certain cases. Property owners are generally free to charge market rates of rent. Leases normally run for a year, so after 12 months, landlords are free to set a new rental rate. This offers considerable opportunity to raise rents during upswings in the market.

In the future many Americans will, of course, continue living in homes they own. However, all signs point to the rental market continuing to play an important role going forward. The demand for rentals will remain high for the foreseeable future, says fund manager Jay Martha of TH Real Estate. Putting money into rental housing is therefore a secure investment with little volatility. After all, CBRE's experts are also confident that "It is unlikely that the home ownership rate will again reach its former high of 69 percent in the near future."

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