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JOURNAL REPORTS: WEALTH MANAGEMENT

As Mortgage Rates Rise, More People Choose to Rent Single-Family Homes

In response, major builders and developers are getting into the business, which was once dominated by mom-and-pop outfits

By Lori Ioannou

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When Ronald Granville, a former law-enforcement officer in Philadelphia, was offered a new job in North Carolina this summer, he and his wife, Fiona Granville, jumped at the chance to relocate their family. They packed up the van and took their two sons on a road trip to scout for a place to live.

The couple had dreamed of owning their own home and putting down roots. But after calculating the cost of a 30-year fixed-rate mortgage on a three-bedroom home in the local market, they instead went with a new community of single-family rentals in Brentwood run by American Homes 4 Rent AMH **1.39%** ▲, just minutes from Lake Norman, their favorite vacation spot.

"We did the math and found the cost of a mortgage, home insurance and taxes would be $1,500 more a month than the cost of renting a home," says the 42-year-old, whose monthly rent is now $2,200 a month. "We decided to wait until mortgage rates drop before buying a house. It is just not economical right now."

Increasingly, U.S. consumers faced with inflation and the high price of homes are pressing the pause button on home buying. The rate on an average 30-year fixed mortgage is now 6.61%, more than double what it was in October 2021, according to housing-finance agency Freddie Mac. As a result, single-family home rentals, or SFRs, are now a hot area in the real-estate market.

"We are in the midst of a housing-affordability crisis and people are suffering from sticker shock," says Gary Berman, CEO of Tricon Residential TCN **-0.97%** ▼, a major developer, builder, and operator of single-family homes for rent across the U.S. and Canada.

More economical

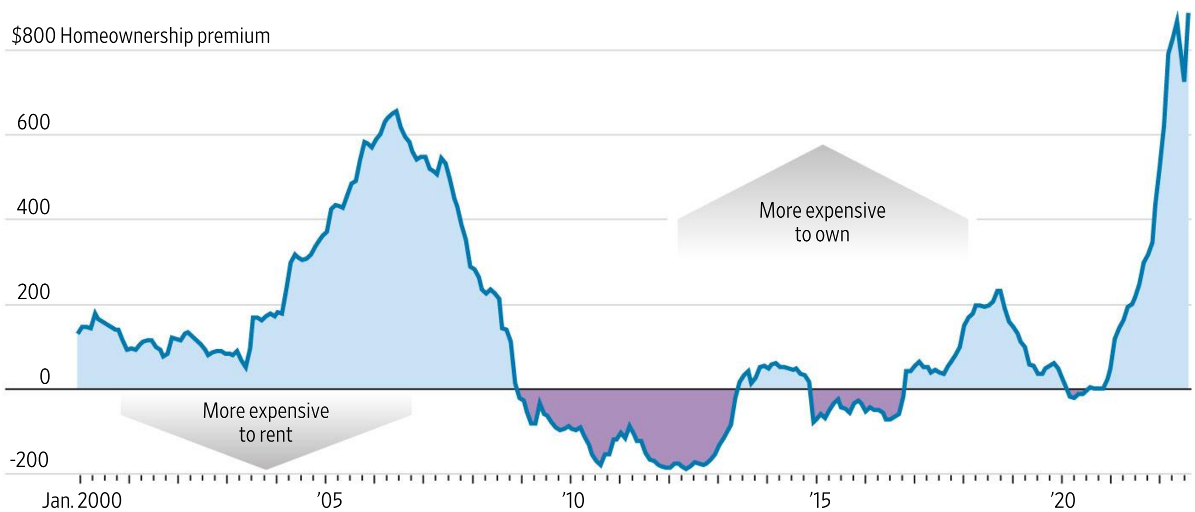
The trend has made consumers closely examine whether renting a single-family home currently is more economical than owning one. Nationally, it cost $888 a month more to buy an entry-level single-family home than to rent it, according to September data from John Burns Real Estate Consulting. A 30-year-fixed mortgage with 5% down (including principal, interest, taxes, insurance and maintenance) on such a home cost $3,058 a month, while the median monthly rent on such a single-family house was $2,170, based on John Burns research. The firm weighted 99 housing markets in the U.S. to determine the median mortgage payment versus the median rent payment.

According to the National Association of Home Builders, the $4.4 trillion SFR market is one of the fastest-growing sectors in real estate. “Today, single-family, built-for-rent homes account for 11% of all single-family home construction in the housing market, versus a 3% market share that was typical over the last several decades,” says Robert Dietz, senior vice president and chief economist for the National Association of Home Builders. “The sector’s market share is on an upswing and should rise to 15% in the coming quarters.”

Other factors are driving the trend as well. Some consumers are facing more challenges when trying to get a mortgage. Banks have tightened credit requirements to avoid loan defaults, making it harder to get a loan. For others, a desire for a more transitory, hassle-free lifestyle has made owning a home less appealing. That is especially true for remote workers who are mobile and can live and work anywhere they can get the best quality of life.

Cost of Owning vs. Renting

The homeownership premium for starter single-family homes, or how much more expensive it is or isn’t to own compared with renting, over time



Note: Cost of owning assumes the purchase of a home at 80% of the current median-priced existing home with a 5% down payment and a 30-year, fixed-rate mortgage. It includes principal, interest, taxes, and insurance, plus mortgage insurance and maintenance costs. Single-family rent assumes a home valued at 80% of the current median-priced existing home.
Source: John Burns Real Estate Consulting

Once dominated by mom-and-pop developers, the SFR market is now a thriving business for major real-estate builders and developers including Invitational Homes, American Homes 4 Rent, Tricon Residential and AHV Communities.

SFR is “the darling of real estate,” says Mark Wolf, chief executive of AHV Communities, a company with more than $1.6 billion worth of single-family rental homes under management and development in six states including Colorado, Texas and Tennessee.

This is happening even though rents on single-family homes have risen 10.2% year-over-year through September due to inflation, according to the CoreLogic Single-Family Rent Index. “That’s pushed the median rental cost for a three-bedroom single-family detached home to $1,900 monthly,” says Molly Boesel, CoreLogic’s principal economist. “In contrast,” she notes, “mortgage payments on these types of homes have increased 50% since January.”

Emily Jewell says despite their good credit, she and her boyfriend weren't approved for a mortgage because "most of our income comes from tips and side gigs not reflected on our W-2 forms."

PHOTO: KAYLEE GREENLEE BEAL FOR THE WALL STREET JOURNAL

Smart homes

Communities are springing up especially in the Sunbelt. Units typically feature three-bedroom homes with two bathrooms, a family room, a large fenced-in yard, and two-car garage. Besides on-site home maintenance, they offer a host of amenities—from swimming pools and 24-hour fitness centers to dog parks, walking trails and EV charging stations.

Some new SFR communities are designed for upscale customers. For example, the townhouses at Farm Haus, an SFR community in the northwest part of San Antonio, are all smart homes in which residents can control their heat, air-conditioning, appliances, locks and garage doors through apps on their mobile phones. Units come with designer kitchens, hardwood floors and 2½ bathrooms.

Emily Jewell, a 25-year-old bartender and makeup artist in San Antonio, says she and her boyfriend, Danny Perez, were denied a mortgage for a starter home. "We have high credit ratings but most of our income comes from tips and side gigs not reflected on our W-2 forms," she says. "Loan officers weren't comfortable approving our application."

Now, for $2,150 a month in rent, they live in a new, three-bedroom house at Farm Haus. Ms. Jewell says she loves the perks that come with her community, like the use of the clubhouse where she plans to have her daughter Santana's first birthday party. "I am now spoiled," she says. "I don't want to downgrade when I decide to buy a house."

Joe and Stella Watson of Star, Idaho, feel the same. The Watsons just moved with their three children from Sherwood, Ore., to a five-bedroom luxury home in an SFR community run by American Homes 4 Rent. "The community is filled with lots of young families and empty-nesters from all over the country and has a lot of cool things the kids love," says Mr. Watson, who is 40 years old and works as a corporate data consultant. "We will eventually buy a home near Boise," he says. "But for now, we'd rather invest in commodities and high-interest savings accounts until the dust settles in the housing market."

Ms. Ioannou is a writer in New York. She can be reached at reports@wsj.com.

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