It Might Be a Perfect Storm for the Rental Market

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Not everyone is cut out to be a homeowner. It's a simple fact that some folks can afford a payment, and they have a decent credit history and maybe even a good down payment, but they choose to rent a home rather than own one. There are lots of tenants, and they are renting from property owners in greater numbers than we've ever seen. Single family residential rentals and even multi-family residential units like duplexes, apartments and shared living communities are all in demand.

We're seeing some unusual reasons for the choice to rent. In some cases, it's driven by a tenant's occupation where folks don't know if they expect their job in a particular location to be for a long enough term to warrant buying a home. Others are simply not interested in the maintenance requirements or are gun-shy about the added expenses of repairs if the plumbing backs up or you lose a tree from a storm. Many of the costs of owning a home are not covered by an insurance policy or even a home warranty program.

According to a recent Study of the Nation's Housing published by the Joint Center for Housing Studies of Harvard University, "the US housing recovery lost momentum in 2014 as homeownership rates continued to fall, single-family construction remained near historic lows, and existing home sales cooled." But during this same time frame, the rental market saw a big increase due to more demand for housing, which has led to a rise in rental prices making the investment in rental property a good one in most areas of the country.

In some parts of the country, the rental market for multi-family housing is exploding with the need for more senior living options as the aging baby boomers need affordability with accessibility and support services. Active boomers are attracted to communities where maintenance is provided and there are optional transition spaces as their needs change from active living to assisted living.

The Harvard study also cited the falloff in homeownership as evident across nearly all age groups, specifically among Generation X or those born in 1965-1984. Before the crash, younger gen-Xers were the prime target for homeownership. But when prices plummeted, these folks had little or no equity going into the recession and are now making up a big portion of the rental market, having been thoroughly disillusioned about owning a home.

Then there are the Millenials -- those born after 1985 -- who are coming out of college with incredible amounts of student loan debt, and they are often transient due to employment while the economy is still on the rebound. In some cases, they are settling for lower income occupations and paying as much as 40% or more each month for their housing expense because they simply cannot afford to buy a home just yet.

So does this mean that every potential investor should go out there and gobble up single family residential property and go to land-lord school? Gosh, no. Clearly, not everyone can be a landlord and manage rental property. But it might be a good time for communities to look at encouraging building or rehabilitating suitable rental housing to meet the growing demand.

A good investor is physically capable of doing minor maintenance so they don't have to contract for those services. They can manage a budget and plan for occasional vacancies. They are available to deal with tenant issues and stay current on the laws governing landlord-tenant rights. And they have the necessary capital to invest in good, solid, rentable properties while interest rates are still relatively low. It helps to also have a great relationship with your banker who can offer some guidance in structuring those property loans to provide a good return on the investment for both the landlord and the bank. For those folks, this just might be the start of a perfect storm.