The rise of rentership

Why long-term demand and market dislocation are creating opportunities across housing

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KEY TAKEAWAYS:

- The rise of rentership is reshaping the U.S. housing market, supported by demographic trends, affordability challenges, and changing lifestyle preferences.
- Affordability pressures are extending the renter lifecycle, creating durable demand across a broad range of housing sectors beyond traditional multifamily.
- Recent market dislocations have created selective opportunities, as near-term concerns have overshadowed otherwise constructive long-term fundamentals.
- Success increasingly depends on breadth, discipline, and asset selection, as performance becomes more dispersed across housing sectors, markets, and individual properties.

Housing's most important trend

The strongest investment themes are often the simplest. In housing today, the most important trend is the continued growth of rentership.

For decades, the traditional path for many Americans followed a familiar progression: rent early in adulthood, purchase a starter home, and eventually trade up as income and family needs evolved. Today, that pathway is becoming increasingly difficult to follow. Rising housing costs, limited affordability, demographic changes, and evolving lifestyle preferences are reshaping how Americans access housing and, in many cases, extending the period during which they rent.

The result is a renter population that is both larger and more diverse than in prior generations. Younger households continue to face meaningful barriers to homeownership, while demographic shifts are creating growing demand for senior housing and age-restricted communities. At the same time, Americans are changing jobs more frequently than in the past, increasing the value of housing flexibility. Average employment tenure in the U.S. has declined from 4.6 years in 2014 to 3.9 years in 2024, reflecting a workforce that is increasingly mobile. For many households, renting can offer the flexibility to relocate for career opportunities without the financial and logistical constraints associated with homeownership. Increasingly, Americans are renting not as a temporary stage of life, but as a long-term housing choice.

What makes this trend particularly compelling from an investment perspective is that the underlying drivers appear largely structural rather than cyclical. Demographic forces can play out over decades, not quarters. The growth of rentership is being supported by long-term changes in how Americans live, work, age, and access housing. As a result, housing demand may prove more durable than many investors appreciate.

"The continued growth of rentership is the most important trend shaping housing for the next decade."

—Kevin Yam,
Managing Director, Portfolio Management

Affordability is reshaping the housing landscape

Affordability has become one of the defining issues within the U.S. housing market.

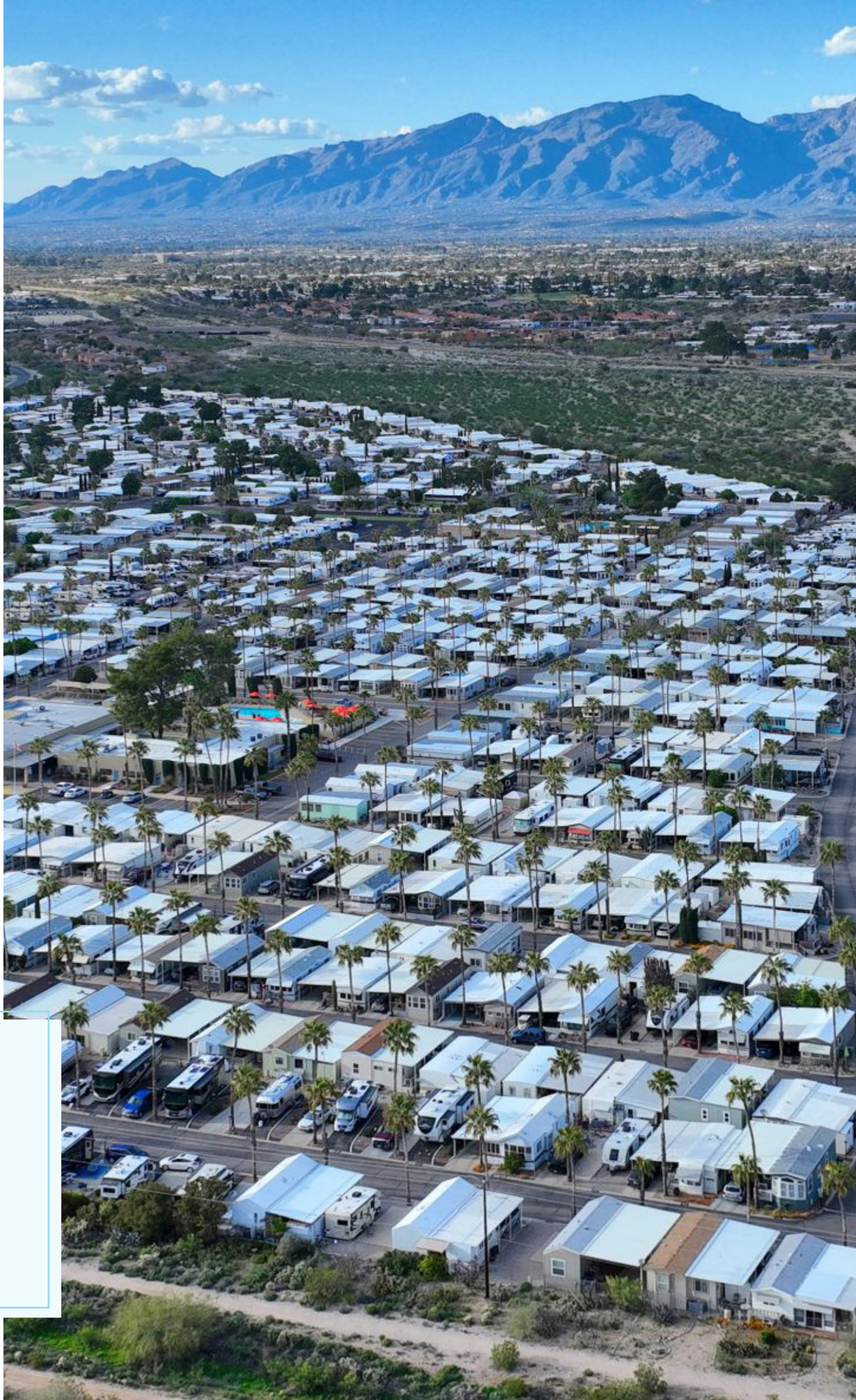
The cost of homeownership has increased significantly over the past several years as home prices and financing costs have risen. At the same time, the supply of attainable housing for first-time homebuyers remains constrained. This imbalance has made it increasingly challenging for many households to transition from renting to ownership.

Importantly, these affordability pressures are not the result of a single market cycle. Rather, they reflect housing supply challenges that have developed over many years. As a consequence, households that historically may have entered the homeownership market earlier are remaining renters longer.

For investors, the implications extend far beyond conventional multifamily housing. A larger and longer-duration renter population can support demand across a broad range of living sectors, including student housing, build-to-rent communities, manufactured housing, age-restricted housing, and senior housing. The opportunity is no longer confined to a single housing segment. Instead, it spans an increasingly diverse housing ecosystem.

This broader renter base may help create an enduring foundation for occupancy and rental demand across multiple property types, even as individual sectors move through different market cycles.

> "Affordability is one of the strongest secular tailwinds for rental housing today."
>
> **—Jim Halliwell,**
> Managing Director, Head of Housing and Alternatives



When short-term challenges obscure long-term fundamentals

While housing's structural demand story remains attractive, recent years have not been without challenges.

Conventional multifamily markets, particularly in portions of the Sun Belt, have experienced elevated supply levels that have weighed on rent growth and investor sentiment. Student housing has faced concerns surrounding enrollment trends and changing demographics. More broadly, tighter capital markets have constrained liquidity and contributed to pricing dislocations across the living sectors.

These challenges have understandably caused some investors to pause. Yet history suggests that periods of market disruption often create opportunities for disciplined capital.

Some of the most attractive investments emerge when near-term concerns overshadow long-term fundamentals. In housing today, demand drivers remain constructive despite recent market pressures. The mismatch between short-term sentiment and long-term fundamentals has created a market characterized by increasing dispersion and, potentially, attractive entry points.

The opportunity is not necessarily about making a broad call on housing as an asset class. Rather, it is about identifying those areas where durable demand intersects with improved valuations and less favorable investor sentiment.

Looking beyond multifamily

Many investors continue to think about housing through the lens of traditional apartments. While multifamily remains an important segment, viewing housing as a single sector can create blind spots.

Housing is better understood as a continuum of living arrangements that evolve alongside demographic, economic, and lifestyle changes. Different sectors serve different populations, respond to different market forces, and sit at different points within the investment cycle.

This broader perspective creates a larger opportunity set.

Student housing may be influenced by enrollment patterns and university-specific dynamics. Senior housing benefits from aging demographics and growing longevity. Manufactured housing can offer affordability advantages. Age-restricted communities serve a unique and expanding segment of the population. Conventional multifamily remains tied to household formation and rental affordability.

Each segment possesses its own opportunities and challenges. As a result, opportunity is rarely concentrated in a single housing type at any given moment. Investors capable of evaluating housing through a wider lens will be better positioned to identify relative value opportunities as conditions evolve.

In a dispersed market, precision matters

Another defining characteristic of today's market is growing dispersion.

The difference between top- and bottom-performing assets, operators, and sectors has widened. In prior cycles, broad market appreciation often masked variation in underlying asset quality. Today's environment is less forgiving. Asset selection has become increasingly important, while broad sector exposure alone may be less effective in driving performance.

At the same time, the assumptions underlying real estate underwriting have evolved. Expectations for rent growth vary significantly across markets and housing types. Operating expenses continue to face pressure across many categories. The result is a greater need for disciplined underwriting, proprietary research, and asset-level analysis.

Success in housing investing increasingly depends on identifying the specific characteristics most likely to support durable earnings growth and resilient demand. This requires moving beyond broad market narratives and evaluating opportunities on their individual merits.

This is not a rising tide environment. Precision matters.

Scale, breadth, and selectivity

In a market characterized by both opportunity and dispersion, competitive advantages can become increasingly important.

Principal identifies three capabilities that it believes differentiate its housing platform: scale, breadth, and selectivity.

Scale creates access. Extensive relationships across operators, developers, lenders, and capital providers can provide visibility into opportunities that may never become broadly marketed. Scale may also allow investors to maintain consistency across market cycles rather than reacting to short-term shifts in sentiment.

Breadth expands the opportunity set. A platform capable of investing across conventional multifamily, student housing, senior housing, age-restricted housing, manufactured housing, and other living sectors can allocate capital based on relative value rather than being constrained to a single property type.

Selectivity may be the most critical advantage of all. Not every market, operator, or asset is positioned to benefit equally from housing's favorable long-term demand trends. Rigorous research, analytical tools, and disciplined underwriting can help identify the characteristics most likely to support sustainable NOI growth and long-term value creation.

Together, these capabilities are intended to help investors navigate a market where opportunity exists, but where outcomes may increasingly depend on careful asset selection.

Investment implications

Housing is being shaped by a powerful combination of long-term demand and near-term opportunity.

Demographic trends, affordability challenges, and changing housing preferences continue to expand the renter population and support demand across a broad range of living sectors. At the same time, recent market dislocations have created valuation opportunities in areas where long-term fundamentals remain constructive.

For investors, the opportunity is not simply about increasing exposure to housing. It is about identifying where secular demand drivers and attractive valuations converge. In a market increasingly defined by dispersion rather than broad appreciation, breadth, discipline, and selectivity may prove more important than ever.

Conclusion

The rise of rentership is more than a demographic trend. It represents a fundamental shift in the U.S. housing landscape. While market dislocations have introduced near-term uncertainty, they have also created opportunities for investors who can look beyond current headlines and focus on long-term fundamentals. For those willing to take that view, housing may be entering one of its more compelling investment windows in recent years.

Principal Asset Management℠

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