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ECONOMY & POLICY | THE ECONOMY

Rent Prices Are About to Run Up, and Inflation Is About to Get Stickier

By Lisa Beilfuss Updated July 26, 2021 / Original July 23, 2021

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It is about to get harder to argue rising inflation is transitory.

When a federal moratorium on evictions expires at the end of July, some eight million households are at risk of being evicted—notwithstanding any last-minute state or federal efforts to protect tenants. The program's end brings fallout for tenants and relief for landlords that will ripple across the U.S. economy, unleashing a new upside risk for inflation as broad pricing pressures boil and inflation expectations climb.

Weekly data from the U.S. Census Bureau show 15% of people in renter-occupied housing units are behind on rent payments. That's double prepandemic levels, according to National Equity Atlas, a partnership between the research institute PolicyLink and the University of Southern California. What's more, 1 in 4 of about 51 million households surveyed said they have no confidence or only slight confidence that they will make next month's rent payment.

Rob Stevenson, head of real estate equity research at Janney Montgomery Scott, says many landlords have already written off unpaid rent. But he says a boost may be coming for real estate investment trusts such as AvalonBay Communities (ticker: AVB), Camden Property Trust (CPT), Apartment Income REIT (AIRC), and Essex Property Trust (ESX), as they have the opportunity to replace delinquent tenants with new occupants at higher rates. Already, he says, apartment rents in coastal markets hardest hit in 2020 are up at least 4% from earlier this year as vaccinated Americans return to norms—including city life.

Rent inflation was running hot before the pandemic, rising at a 3.4% clip immediately before lockdowns. That rents have been rising above a 2% annual pace even as evictions are on hold speaks to bubbling pressure as wages rise, mobility increases due to vaccinations and reopenings, and unit occupancy rates fall. Those forces are set to collide with an indirect boost from surging home prices just as the effective cap on rents from the eviction moratorium expires.

Housing prices tend to lead rents by about 12 to 18 months, says Citigroup economist Veronica Clark. Given that home prices started to balloon at the start of the pandemic, that impact on rents is imminent. It's also not slowing down. A report from the National Association of Realtors this past week showed the median price of a previously owned home hit a new high in June, up 1.4% from May to $363,300. That's as the Census Bureau reported a drop in building permits—an indicator of future housing supply—to the lowest level since October.

Clark expects housing demand to remain strong into at least next year—translating to a knock-on upward effect for rents into at least 2023. Shelter inflation is the most persistent kind, she says, meaning an ongoing acceleration in rent prices will make it increasingly hard for central bankers and others to say inflation is in fact transitory.

That doesn't mean the Federal Reserve won't still argue inflation is fleeting when its policy meeting concludes this coming Wednesday, but it may mean officials are going to have a tougher time convincing investors that they are right.

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