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For some, renting is a better strategy than owning

Market, age, job security are all contributing factors

BY EILEEN ALT POWELL
Associated Press

Someday, 26-year-old Lisa Carlson would like to own her own home. But right now, she's happy sharing a rented apartment with a friend in Golden Valley.

"I want to make sure I can comfortably afford it before making that leap," says Carlson, who works in Minneapolis. "I don't want to be house-poor."

There's no question owning a home is a desirable goal, and low interest rates in recent years have made it possible for millions of Americans to buy their first houses, invest in income property or trade up to a larger home. For many others, though, there are good reasons to continue to rent.

"You really need to assess your overall expenditures, not just your housing expenditures, and ask yourself if you really can afford to buy," said Eric Tyson, co-author of "Home Buying for Dummies." "Home buying is not for everyone — and certainly not for everyone at every point in their lives."

For young people like Carlson, it's not a bad strategy to get one's financial life in order before taking on the kind of debt required to buy even a modest condominium or starter house.

Carlson, who works at the Colle + McVoy public relations agency, said she is focusing on paying off her college debt, then she will turn her attention to accumulating money for a down payment on a house. She said she's wary of moving too fast because she's seen friends struggle when they were financially unprepared to buy.

"Some have had trouble keeping up with their mortgage payments," she said. "Or a condo association will raise fees and they can't afford their place anymore."

Diane Saatchi, senior vice president with the Corcoran brokerage in East Hampton, N.Y., said that in some communities home prices are so high and rents are so low many find it advantageous to rent. This is especially true in cities like New York, where rent-control laws have kept a lid on rental prices.

"But, of course, renters are missing out on the appreciation of a home," she said. "There are renters who say they could put money aside, invest it cleverly and get that kind of appreciation — but most people don't do that."

There are also times when it doesn't make sense to own.

"We see older people who have large houses that they're selling," Saatchi said. "In some cases, given their age and lifestyle, it doesn't pay for them to buy a smaller house. Or they may be temporizing until they decide whether to move to Florida or closer to the kids or something else."

Tyson adds that buying can also be a problem for young people who think they'll have to move frequently for their jobs.

"Residential real estate has relatively huge transaction costs," he said of the brokers' fees, closing costs, registration fees and other expenses associated with the purchase of a home. "To buy and later resell, figure it (the costs) at about 15 percent of the home's value. That's huge, and it means you have to stay put, ideally for at least five years, to recoup that 15 percent."

For people like Xavier Lanier, 27, the rapid run-up in home prices in recent years — including in his home community of San Francisco — has discouraged him and his wife, Amisha, from trying to buy.

"In our neighborhood, a two-bedroom condo costs about \$700,000 to \$750,000, and people are dealing with payments of \$5,000 or \$6,000 a month," he said. "A similar condo can be rented for \$2,000 and up."

That kind of math has convinced him that "owning just doesn't make any sense" right now. Lanier also has watched what has happened to friends and acquaintances who have tried to buy despite the high prices.

One couple can only find properties they can afford 45 miles outside of San Francisco, he said. Another friend is spending \$5,000 a month for a one-bedroom loft in a crime-ridden neighborhood, he said.

Financial planner Brian Jones, author of "Getting Started — The Financial Guide for a Younger Generation," said the key to making the move from renting to buying is cash flow.

"People need to make sure they have the money not only for the mortgage but for other expenses that come with ownership," he said, including real estate taxes, insurance, and repair and maintenance costs.

He believes most people need to buy property at some point in their lives.

"It gives you your own little piece of the American dream," Jones said.