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For some, renting makes more sense

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By Noelle Knox, USA TODAY

There's been a debate ever since Micki Seibel and Jan Leger told their friends they were going to sell their home in the heart of San Francisco and rent an apartment.

"Half think it's great. The other half have been trying to talk us out of it," says Seibel, 34, who works for MyNewPlace, a new online apartment search firm.

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Though Seibel and Leger love their home, which they bought in 2002 for about \$1 million, it's been draining them of \$5,600 a month for their mortgage and taxes, when they could be renting a place just as nice in the same neighborhood for about \$3,400. "We can put that savings in the bank and make it work for us and take away the risk of the unknown future of the real estate market," Seibel notes.

It's hard to imagine the American dream as a two-bedroom apartment with a pool, instead of a single-family home with a white picket fence. But in some of the nation's priciest real estate markets, that's what's happening. The financial reasons for renting instead of buying are the strongest they've been in 25 years.

"The last time home affordability fell to such an extreme was in 1981, but that was because interest rates jumped from 13% to 16%," says Hessam Nadji, a managing director for Marcus & Millichap, an investment brokerage firm.

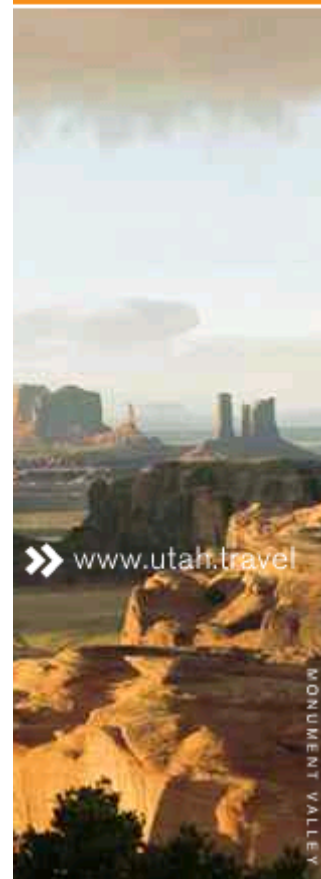
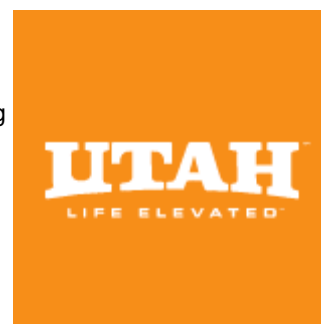
"What's alarming this time is that interest rates are still historically low. That means rents need to go up, and home prices to come down in some areas, for the balance to be regained. And that may be a painful process that takes between a year to 18 months."

The market was thrown out of kilter during the five-year real estate boom. Renters stampeded at the sight of an "open house" sign, trying to buy anything they could afford. Prices soared by 40%, and by even more along the coasts and in such places as Las Vegas and Phoenix. Landlords couldn't raise rents as fast, so many apartment owners simply gave up and converted their buildings into condos for sale.

So how out of whack is it now?

The national median mortgage payment is \$1,687 a month, nearly twice the median rent payment of \$868 a month. The financial gap is even larger in cities where home prices recently rose to sky-scraping heights, such as New York, San

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Francisco, Los Angeles and Washington, according to an analysis by Marcus & Millichap for USA TODAY.

Though adjustable-rate and other exotic mortgages enabled families to buy homes with low-to-no down payments, many of them are still stretched to the financial limit. For a family earning the U.S. median income of \$46,913, for example, owning the median-price home of \$224,739 would eat up 51% of their income. Renting would require just 25%.

Buyers sit on the sidelines

Add rising interest rates, and it's easy to see why many would-be home buyers are sitting on the sidelines and why even some homeowners are cashing out.

By renting, they gain the flexibility of a lease and freedom from home repairs. They can also invest more money in stocks, bonds and other assets that could appreciate faster than real estate over the next couple of years.

"For someone debating whether to rent or buy in a market that's experienced recent and substantial house-price run-up, it may be better to delay the home purchase and see what the market looks like a year or two down the road," says Stuart Gabriel, director of the Lusk Center for Real Estate at the University of Southern California.

He adds, though, "Over an extended period of time, homeownership is going to make sense for most people, most of the time."

How long is an extended period? It depends on the size of the gap between the cost of renting vs. owning.

A homeowner in Orange County, Calif., for example, would have to stay in his or her home for a decade before breaking even on out-of-pocket costs compared with renting, according to Marcus & Millichap.

Of course, on the other side of the debate, homeowners can argue that they're building wealth by investing in an asset that appreciates over time, while renters are throwing money out the window. Homeowners can also enjoy stability (with a fixed-rate mortgage), tax advantages and financial security.

'It's crazy'

"Real estate is probably the best investment any young person can make," says Yadiris Ferreira, 29, who bought a condo last month in Pembroke Pines, Fla.

Still, her mortgage, including homeowner association fees, totals \$1,800 a month — more than half the money she takes home as a high school math teacher. "It's crazy," Ferreira concedes.

But, she explains, "If I didn't buy something soon, it was going to get to the point that I couldn't afford anything."

Lots of other people thought the same way during the boom years. But now home sales are falling, and in some cities, prices have started dropping, too. In June, condo prices fell 2% nationwide, and single-family home prices dipped in several markets, including San Diego, Boston and Washington.

"It would be scary to buy something in a hot market and have the price just fall a few months after we buy," says Joel Coffey, a 21-year-old accountant who signed a lease last week with his wife, Katy, for an apartment in Seattle.

As more people like the Coffeys take a wait-and-see attitude, they put pressure on home sellers to cut prices. At the same time, as renters swarm the apartment market, they force up rents. This year, rents are expected to climb about 5%, and by even more in such expensive markets as Seattle, New York and San Francisco.

When the Coffeys were apartment hunting, Katy, 22, called a landlord who had posted an ad on the Craigslist website. "She told me, 'You're the sixth person to contact me, and I've had it listed for 15 minutes.'"

In Manhattan, the rental market looks pretty much the way the housing market did two years ago: multiple applications,

dueling agents and rising prices.

"Renting instead of buying is becoming a more popular option than it's been in a long time," says Jonathan Miller, CEO of Miller Samuel, a Manhattan appraisal company. "Landlords who have been suffering for the last four or five years are trying to make up for lost time."

Rents in New York City have already climbed 5% to 20% over the past year, but that's still not enough to rebalance the market. Miller estimates that rents would have to rise an additional 20% before it would make more financial sense for renters to start buying.

In San Francisco, where the median home costs about \$760,000, apartment rents have jumped 15% in the past two months, says Janan New, executive director of the San Francisco Apartment Association.

"There is a huge demand for apartments in San Francisco because homes are so unaffordable," she says.


That's still not enough to persuade Seibel and Leger to keep their home there. "We've been watching the rents," Seibel says. "But for what we're paying for our mortgage and property taxes, we could be renting a mansion in Pacific Heights."

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