

StarTribune.com | MINNEAPOLIS - ST. PAUL, MINNESOTA

Last update: May 27, 2006 – 8:23 AM

Renting's appeal rises

With steep house prices and rising interest rates, many prospective buyers are deciding that renting looks pretty good after all.

Aimee Blanchette, Star Tribune

With a baby on the way and the lease on their Golden Valley apartment expiring in June, Terry and Heidi Lange looked into buying their first house last December.

They discovered that they would have to move farther from Minneapolis in order to buy a home on their combined income of \$56,000. Right now, Terry walks to work and they enjoy their building's amenities, such as the community room where Heidi had her baby shower. And if Heidi decides to stay at home with 1-month-old Joseph, their \$975 rent is feasible on one income.

They decided to stay put.

"We realize there are some drawbacks to renting," Terry Lange said. "But those are small prices to pay for stability and convenience."

Now that mortgage rates are rising and appreciation rates are slowing, there's less financial incentive to become a homeowner. That's already reflected in the rental vacancy rate, which shrank to 5.5 percent during the first quarter of 2006 compared with 6.9 percent in the first quarter of 2005.

"The declining vacancy rate means that the economy has improved, there's more job growth, more renters in the market and the home ownership avenue isn't as appealing or as affordable as it was a year or two ago," said Brent Wittenberg, vice president of GVA Marquette Advisors.

Here are some things to consider if you are thinking of making the jump from renting to owning.

THE VARIABLES How long will you stay?

Experts are projecting steady but modest home appreciations during the next 12 to 24 months, so don't count on gaining 8 to 15 percent a year in home value. If you're going to be in the house only for a year or two, from an investment standpoint, home ownership might not be the route to go.

Try one of the many rent vs. buy calculators online to find out how long it will take for the paid equity, appreciation, tax savings and property taxes to cancel out the sale and closing costs.

"If you'll stay longer than two years, you'll probably be OK," said Todd Shipman,

president of the Minneapolis Area Association of Realtors and a sales agent with Great Minneapolis Realty Co. "But always plan for the unexpected. People fall in love every day. Goals change, especially for a younger buyer. Find out the ramifications of selling early."

What fits your lifestyle?

The perceptions of renting are changing.

"It used to be that renters were young and just starting out and only rented until they could afford to buy, or they were empty-nesters," said Tina Gassman, director of public relations for the Minnesota Multi-Housing Association. "We're finding that more people in the middle-age category are renting to take advantage of the lifestyle it offers."

Renting provides the freedom to move more easily and the ability to live in a neighborhood that's too expensive to buy in. Even though landlords are offering fewer move-in incentives, they're still competing with the condo market and therefore, apartment living has become more lavish.

Tracy Bolton, marketing director of Steven Scott Management Inc., which manages about 6,000 units in the Twin Cities, points out that property owners are offering more services, such as dry cleaning, to sweeten the deal. "There's a lot of new rental construction out there that's very attractive and upgrades being made to older properties," she said. One of Steven Scott Management's properties in St. Paul has a gourmet kitchen and offers cooking classes to residents.

What can you afford?

Because the demand for rentals has increased, property owners will start raising rents -- in some cases, for the first time in years. On average, however, rents still are essentially equal to rates from the past five years when vacancies were high and the housing market was hot with low interest rates. The average rent actually declined in 2004 and 2005, but property owners remain optimistic that rents will slowly but steadily increase.

Calculating the costs of owning can be difficult, because there are many variables. A financial planner can help you decide what's best for you.

After newlyweds Dan and Jessica Felix calculated the costs of owning in Uptown, they gave up. Their combined income is \$85,000, plus they have about \$25,000 in savings and investments. They found that even with a \$44,000 down payment or private mortgage insurance, a \$220,000 loan would cost them an estimated \$1,662 a month, plus the costs of utilities and maintenance. Their \$625 rent plus electricity looked a lot better, and they weren't willing to leave Uptown.

Instead, the couple bought a house for investment near the University of Wisconsin-Stout in Menomonie. They fixed it up and are renting it to college

students. The rent covers the mortgage payment without cramping their lifestyle in Minneapolis.

"We aren't completely happy renting, but it makes sense for us financially and based on our lifestyle," Dan Felix said.

Aimee Blanchette • 612-673-1712

©2006 Star Tribune. All rights reserved.