

DANNY
STEED

Renting vs. buying a home ... it's a timing thing

There is an old adage in the housing business that says “whether you rent or whether you buy, you pay for the space you occupy.” Now for the difficult part. Which option is best suited for me and my family, especially in this topsy-turvy real estate market?

With challenging forces at work, which are affecting most housing markets across this country like more restrictive mortgage qualifying guidelines for buyers, this question is being raised by more and more folks as they consider relocating. Whether it is a prospective homebuyer moving into our market area who has not been successful in selling his home where he's coming from, or whether it is the growing number of credit-challenged consumers, it is today's reality in housing. Yes, mortgage interest rates are at an all-time low, and many homebuyer are reaping the benefits of lower payments because of this. Still others find it desirable, or necessary, to rent. Then, there are those who could buy but pose the question “is this the best time to do so?”

To determine the best answer to this question, let's look at primary reasons for buying: 1) Pride of ownership. Your home is yours to enjoy and do with what you please without approval from a landlord. 2) Tax benefit of mortgage interest deduction, as well as deductibility of property taxes paid, creating a nice tax savings. 3) Principal accumulation. As you make your payments, thereby lowering your loan balance, you are building equity for the future — kind of like a forced savings account. 4) Capital gain exclusions on sale of property. The IRS gives you a break by allowing you to “carry forward” any profits you make on primary residence sales, as long as you continue to invest in additional residences down the road. Then, you can ultimately exclude gross income up to \$250,000 in capital gain taxes for single taxpayers, and up to \$500,000 if you are married and filing jointly (consult your

tax professional). Finally, 5) You have the long-term potential for property appreciation. Herein lies one of the biggest questions in today's market. “Will my home go up in value?” Real estate has a long history of increasing in value, especially in inflationary times. Although no guarantees can be made, our market area has seen consistent and stable long-term growth in property values, typically 3 percent to 4 percent per year on average over the past 20 years.

Those destined to rent generally do so because of the following reasons: 1) Lack of financial ability to purchase, whether it is cash required for down payment, job instability, low credit scores, or insufficient income needed to qualify for a mortgage. Don't assume that you can't buy without at least talking with a qualified mortgage lender. You might be surprised. 2) Short-term residency and a need for mobility. Typically, in most markets, 2 to 3 years is probably a minimum time period to own and try to recoup your initial investment. If your emotional desire for homeownership outweighs your financial need to recoup your total investment when you sell, you may still want to own instead of rent. 3) Maintenance and repairs. Other than renter-caused damages, most major mechanical items like central air conditioning and heating systems are the landlord's responsibility. Although landlords generally factor maintenance costs into the rent they charge you (along with taxes, insurance and interest expenses), they may be in a better financial position to pay for emergency repair items.

Lastly, it is important to note that rent payments, especially in today's economic climate, can be higher than mortgage

“In today's affordable home buying market, especially with historic low interest rates, house payments on comparable homes could be hundreds less than the rent charged for the same homes.”

payments for comparable properties. Because many buyers have been squeezed out of the homeownership market and need to rent, demand for quality rentals goes up, and the rent goes up with it. In today's affordable home-buying market, especially with historic low interest rates, house payments on comparable homes could be hundreds less than the rent charged for the same homes.

Back to the “timing thing.” How clear is your crystal ball, and how strong is your desire to either own or rent? Real estate as an investment is cyclical, so where are we in our housing market cycle? Are we closer to the top of the cycle where optimism and excitement are peaking, and market opportunities are lower and full of risk? Or, are we closer to the bottom of the market cycle where fear and uncertainty are the order of the day, but opportunities abound and risk is much lower? I believe that time will ultimately show that we are closer to the bottom of the market cycle where opportunities for property appreciation are very good, investment risk is much lower, and you will be rewarded with your decision to purchase if you possibly can.

Danny Steed is owner/broker of Hirschi Realtors.