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Renters test the waters

By Alex Veiga
The Associated Press

LOS ANGELES — Thinking of buying a home? Consider this: The gap between monthly rents and mortgage payments is at its lowest level in almost 20 years.

In some markets, the difference can be less than \$100, according to a national study conducted for The Associated Press by Marcus & Millichap Real Estate Investment Services.

The study found years of falling home prices and low interest rates have created the ultimate buyer's market. But while buying a home is more affordable, it isn't necessarily easier.

Tougher lending standards have made it harder to qualify for a home loan, and unemployment is at 9.7 percent. Tax incentives for homebuyers will expire April 30, and interest rates are expected to increase this year.

"Statistically, it's a great time to buy," said Hessam Nadji, managing director of Marcus & Millichap.

"Psychologically, the consumer doesn't feel like it's a great time to buy."

The analysis of 45 metro areas found the difference between the monthly mortgage payment on a median-priced home and the median rent is down to \$256. The last time that gap was anywhere near that small was in 1993 when it fell to \$264, according to the study.

Marcus & Millichap used median prices for the last three months of 2009 and calculated mortgage payments by assuming a 10 percent down payment and a 30-year fixed loan at 5.07 percent, among other factors. It also assumed borrowers paid for private mortgage insurance and didn't include repair costs and tax benefits.



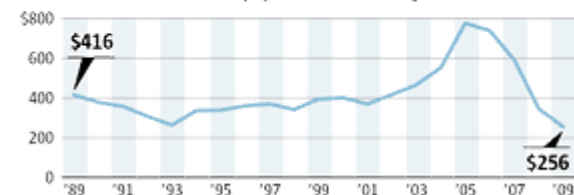
DAMIAN DOVARGANES / AP

"Our mortgage is only a few hundred dollars more than our rent; why not own?" says Fred Archambault, shown here with his wife, Amy, and their dogs next to the pool at the house they bought near Los Angeles for \$385,000.

Buying and renting cost gap narrows

The gap between the cost of owning and renting has fallen to its lowest level in at least 20 years, due to falling home prices and low interest rates.

Difference between home payment and average effective rent



Sources: Marcus & Millichap Research Services; NAR; Reis

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DAMIAN DOVARGANES / AP

New homebuyers Fred Archambault and his wife, Amy, share their laundry room with his garage sound studio. Fred Archambault is a record producer.

In Detroit, which has been hard hit by unemployment and falling home values, it's cheaper to rent than own, though not by much — \$75. The difference is less than \$200 a month in markets such as foreclosure-ravaged Las Vegas, Atlanta, Cleveland, Indianapolis and Orlando, Fla.

Renting remains far more affordable than owning in traditionally pricer markets such as New York. In Manhattan, the gap is more than \$4,000. Renters will save \$1,000 or more a month in metro areas such as Seattle, Los Angeles, San Diego, San Francisco, and San Jose, Calif.

But even in some of these markets, longtime renters are testing the market.

Whitney Morris and fiance David Welsch bided their time as home prices dropped before agreeing to buy a two-bedroom, condo in San Francisco listed at \$739,000.

"A couple of years ago, if we had purchased a place, we would have been living in a shoe box that needed a lot of renovations," said Morris, 29, who had saved up more than \$100,000 to make a 20 percent down payment. "And now we can afford a place that feels really good, that we know we can grow into."

The couple's monthly payment, around \$3,000, will cost about \$800 more than the rent they now pay for a one-bedroom apartment. But some of that will be offset because they'll be eligible for a homeownership-tax deduction. In addition, as first-time buyers, they can qualify for a federal tax credit of up to \$8,000 and up to another \$10,000 in California state tax credits.

There are also significant tax benefits, including capital-gains deductions for property taxes and loan interest. A home appreciates in the long run and acts as a hedge against inflation. It helps diversify your assets, builds equity and provides a means of forced savings as you slowly pay down the principal. Real estate also is a leveraged investment, unlike most others. If you put 10 percent or \$20,000 down on a \$200,000 house and it appreciates to \$300,000, that translates to a 500 percent return.

On the flip-side, homeownership often comes with hefty and unexpected repair bills. And values don't always go up. Nearly a quarter of all homeowners with a mortgage owed more on their loans than their homes are worth in the last three months of 2009, according to First American CoreLogic.

In some areas, renters must be willing to move elsewhere to become homeowners.

Fred Archambault and his wife, Amy, rented an apartment in West Hollywood, Calif., for 10 years.

"We loved the neighborhood, but when it came down to it, the main factor is we couldn't afford to buy anything in the neighborhood," said Archambault, 32. "We didn't want a duplex or a condo. We wanted a single-family house with a yard and some space."

In February, the couple found that house 30 miles north in Santa Clarita. The property has four bedrooms, two baths and a pool. It cost \$385,000, less than half the median price of a single-family house in West Hollywood.



DAMIAN DOVARGANES / AP

Former renters Amy and Fred Archambault found a house they could afford in the Los Angeles area. "We didn't want a duplex or a condo," he said.

"Our mortgage is only a few hundred dollars more than our rent; why not own?" said Archambault, a record producer.

Of course, this won't last forever.

Home prices are expected to start rising before rents, Nadji said. "You're actually going to see affordability decline in those very traditionally expensive housing markets," Nadji said. "It will be more attractive to rent than to buy."

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