To Buy Or To Rent?

Insights on a Common Question

Quarterly Special Report Q4 08

A public relations report and briefing.

A **Coldwell Banker**® Special Report

To Buy Or To Rent?

"Should I buy or rent?" Recent graduates, young couples, relocating professionals and others have all asked themselves this question at one point or another. The decision to rent an apartment, condo or house as opposed to buying is complex and is based on a number of factors.

To help you address these issues with members of the media and renters in your local area, this special report includes background information, key talking points to study and share and helpful Questions & Answers. As always, these points should be combined with concise, data-driven insights from your local market.

Key Background:
Real estate professionals are often asked for their points of view on the decision to buy or rent. While buy-versus-rent calculators can be helpful, there are numerous factors beyond straight "economics" to take into account. So it is important for consumers and members of the press covering this topic to review the full range of available online and offline resources – including the information available directly from www.coldwellbanker.com.

Here are several relevant URLs to consult as resources on this topic:

- *coldwellbanker.com* – Information from Coldwell Banker on resources for prospective home or apartment-buyers
- *Tips for those that are ready to buy* – This article from coldwellbanker.com offers helpful tips customers should consider if they're thinking they are ready for homeownership
- *For a calculated decision* – This handy rent-versus-buy calculator from coldwellbanker.com can help break down basic money questions
- *Suggestions from the National Association of Realtors* – NAR's Web site has good suggestions on buying versus renting as well as numerous other resources
- *Information from the U.S. Department of Housing and Urban Development* – The HUD Web site offers many insights about home owning and financing
- *To obtain your credit information* – Point consumers to this site to receive credit reports and credit scores to help them understand their creditworthiness

The Decision Process

Everyone is looking for a place to call home. But whether that home ends up being under your ***own*** roof or a landlord's is a pivotal question – and one with slightly different answers for everyone, based on a number of factors.

The decision to rent or own involves both "soft" lifestyle and "hard" financial issues:

- *"Soft" lifestyle issues* – Such as a renter's ability to call a maintenance person or landlord rather than having to tackle a repair, versus a homeowner's freedom to paint the walls any color they wish
- *"Hard"financial issues* – Such as balancing the "burdens" of greater financial responsibility (mortgage, home improvements and repairs, taxes, etc.) against the "bonuses" of homeownership (equity, appreciation, etc.)

The "hard" financial issues are usually top-of-mind for consumers and reporters when the buy-versus-rent question is raised. The money hurdles that must be cleared to become a homeowner are the most obvious part of the equation – particularly in an economic climate where underwriting criteria for mortgages have become more stringent.

For many, a home purchase represents the single largest financial transaction they will undertake in their lives. So it is imperative that consumers take personal responsibility for themselves and their financial futures. Encouraging consumers to ask even the most basic question – i.e., "Can I afford to buy a home right now?" – is the first step in exploring the buy-versus-rent equation. And in fact, this may be the most single important step in the entire process.

When consumers do not adequately research and understand all the fiscal obligations that are involved, their homeownership may be negatively impacted. Real estate professionals can and should play a critical role in reminding customers of the essential financial questions, helping them to align home purchase expectations with their personal economics. Ultimately, this will help them determine whether ***now*** is the time to stop renting or not.

Yet there are more elements to the buy-versus-rent equation than money alone. This is where those "softer" lifestyle questions come into play.

Most Americans understand that a home is a powerful long-term investment – so the earlier one makes the right investment in a home of their own, the more potential financial rewards they will reap down the line. But not every moment in life equates to the ideal time to buy.

What about the professional ready to relocate for the right job offer? Or what about the couple thinking about moving in together, but unsure whether their relationship will go the distance? The unique characteristics of each person's individual lifestyle and lifestage are a critical piece of the puzzle – and real estate professionals have a major role to play in helping them assemble the "big picture."

Misconceptions On Buying Versus Renting

While there are a number of misconceptions surrounding whether it is best to rent or buy, one of the biggest may be the notion that renting is simpler. For example, when the refrigerator in a rental needs repair, the responsibility falls on the landlord. When new homeowners sign their name on the dotted line, responsibility is theirs. Yet stating that renting is the "simpler" choice takes a narrow view of the total set of questions and issues that go into the buy-versus-rent decision.

Here are a few of the misconceptions relative to buying versus renting:

Misconception No. 1
The tax benefits derived from purchasing a home takes forever to offset all the other costs involved.

The Reality – Most people know that tax write-offs of mortgage interest are among the biggest financial benefits of home ownership. But some people question whether this benefit is really great enough to offset the "big picture" cost of ownership – including the hefty down payment and closing costs needed to get a former renter across the threshold to homeownership.

Homes typically appreciate in value over time – at the same time the homeowner builds his or her equity in the property through monthly mortgage payments. Though tax offsets begin right away (really starting to "pay off" in that first tax filing season after a home's purchase), the bigger picture benefits tend to come with time.

That's why potential homebuyers should carefully evaluate how long they expect to stay in the home that they are considering purchasing. If they anticipate staying in their first home only one to two years – especially in today's market – they're not as likely to get a good return on their initial investment. If, on the other hand, they are planning on staying several years in the same property, the scales of benefit start to shift – and the value of all that they gain financially from homeownership is likely to outweigh those initial costs to get in the door.

Misconception No. 2
Renting a a home isn't all that different from owning.

The Reality – More so than apartment dwellers, the lives of people who rent a house can often mirror those of actual owners. You'll see many home renters making routine repairs, gardening, shoveling the driveway when it snows or cleaning the gutters after the leaves fall.

But there is one fundamental difference. Unlike equity built with each monthly mortgage payment, the rent that person is paying is producing zero future financial benefit. In fact, a renter essentially paid the landlord's mortgage and likely additional utility costs.

Since most homes increase in value over the long term, a home not only provides a place to live but will ultimately provide return on a consumer's original investment. Additionally, when it comes time to apply for other forms of credit, responsible homeowners are more desirable borrowers. Paying a mortgage on time each month shows lenders that a consumer is secure, stable and effectively manages finances.

And those home renters who take it upon themselves to help make property updates and repairs? They're building equity – just not their own.

Misconception No. 3
It's better to rent and wait for the market to bottom out.

The Reality – Despite recent challenges in the U.S. housing market, buying a home remains a highly sound financial decision for those with documented income and a good credit history. Yet some buyers are still sitting on the sidelines trying to time the market bottom – which is always ill-advised. By the time most folks recognize the true bottom, prices are already on their way up.

Buying a home should always be approached as a good long-term investment, providing equity accumulation, cost appreciation and tax benefits over time.

Homeownership is a lifestyle decision, a highly personal decision. Yet today's current market, while different from market-to-market, is generally typified by falling or stable home prices, still-low interest rates, and a large number of homes on the market.

Historically, low or falling interest rates allow more to enter homeownership which in turn helps trigger rising housing prices – resulting in the start of a "sellers market." As the number of consumers are "priced out", home inventory begins to increase and the cycle goes towards a balanced or even a "buyers" market. Prices will generally stabilize allowing economic conditions for those "priced out" to improve and the cycle begins again.

The reason why many point out that now is a smart time to buy is because of the historically low interest rates we are seeing coupled with the buyer's market which exists in most communities. Speaking with a knowledgeable real estate professional can help one navigate the nuances of a specific market, including how interest rates are impacting home prices and financing options in that region.

The most important thing to remember is that housing is ***not*** a quick-in, quick-out investment. When purchased with the longer term in mind – with proper guidance from a real estate professional and other savvy financial or legal professionals – housing is one of the historically safest investments consumers can make.

Misconception No. 4
It's cheaper to rent.

The Reality – This may or may not be so. Because of the current state of the housing market, many are foregoing homeownership and turning to rentals. This influx of renters may be having an impact on the supply and demand of rentals and driving rents higher.

Most real estate sales associates will have a strong understanding of the rental market in the community and can refer potential buyers to a reputable mortgage lender. It is imperative to ask questions and understand the financial implications and costs of a mortgage.

Misconception No. 5
By buying a home, I'll become a victim of the foreclosure mess.

The Reality – While foreclosures have presented very serious concerns for those people affected across the country, it's important to remember that they account for just a small percentage of all homes sold.

In the midst of all the negative news headlines, it's easy to forget that mortgage money is still available for qualified borrowers. To help prevent foreclosures in the future, lenders have returned to upholding higher standards. These may require you to demonstrate strong basic borrowing "fundamentals" such as proof of income, solid credit, ability to make a down payment, etc.

Finally, as you begin your home search, it's critical to be well-educated in terms of the various mortgage options available. Be realistic about what you can afford, and remember, if something sounds too good to be true, it probably is. Conservative planning for today (and tomorrow) is the first step toward securing a mortgage that best fits your budget.

Core Talking Points:

Over the past year, home prices, mortgage rates and subprime loan issues have been the subject of a lion's share of disturbing news coverage. For consumers debating whether now is the time to take the leap into home ownership, it can all seem overwhelming.

Consumers and members of the media are interested in hearing both sides of the buying-versus-renting story, supported by anecdotes on the relevant trends occurring in your specific market. Preparing insights with strong local context and data points will allow you to be able to provide a clear and compelling (and quotable) point of view.

Here are several overarching talking points regarding buy-versus-rent that can be tailored to reflect your area:

- *Don't hesitate - start saving now.* When a home purchase seems like a long way off, most individuals take a short-term view. They forget that time is on their side, and a little money stashed away each month can grow quickly. So take advantage of the years before you buy – especially if your rent is fairly low (or non-existent, as for young people living at home). Put away as much as you can each month. You'll be surprised how quickly you can accumulate the funds needed to put a down payment on a house. And don't forget FHA loans and the new $7500 tax credit can favor first time homebuyers.

- *Talk to a real estate agent, even if you're not planning to buy for a few years.* Many future homeowners think they must be ready to buy before approaching a real estate professional. However they can learn a lot about how to plan for a home purchase down the line by asking questions way ahead of time.

- *Take time to learn about home repairs.* The more you know, the less you'll spend later on. Pay attention to your parents, the plumber or your landlord when things go askew. Consider signing up for free seminars offered by local home improvement chain stores. If you're living at home, offer to help with the repairs.

- *Learn how to access – and closely review – your credit score.* A sound financial track record and solid credit score can help lock in a loan and lower interest rates. Checking your records with a fine-tooth comb in advance will also ensure that you catch any errors ahead of time, as well as help you better understand how lenders may perceive you. Use coldwellbanker.com for a free credit score report.

- *While it's nice to live with low expenses, don't wait too long.* By renting a home or apartment, you might be able to save a considerable amount of cash. However, there are many tax advantages and financial incentives for owning your own home. Evaluate your situation and make the move when the time is right.

Q.&A.

Questions & Answers for Media and Customers:
Below are questions that the media or consumers might ask you regarding buying versus renting, with suggested responses. Consider how you can customize these points for your market.

Q. When is the best time to consider buying? What age? Point in life?

A. This answer will be different for everyone – and has a great deal to do with an individual's own lifestage, lifestyle and financial profile. First and foremost, a renter must address the basics: Can I afford to buy at this time? Is my credit in good shape? Do I understand how my month to month cost-of-living will change, when I factor in new expenses like property taxes?; etc. One critical factor in the decision to buy-versus-rent is your short-term versus long-term outlook. If a recent college grad doesn't know if he or she really wants to stay in the same city for the next few years, renting may be the way to go for the short term. If a young person is ready to put down roots in a community and feels confident in his or her job – it's likely that buying is the better way to go. But if both income and credit history are simply not there, it will be hard to get past "go."

Q. Are there any tips to offer someone that is navigating the buy-versus-rent process?

A. Here are a few key factors to consider:

Work to clean up your credit: Though basic advice, the best thing a renter thinking about buying can do is spend some time to understand – and, if necessary, "clean up" – their credit score and credit history. The difference between a middling 680 score and a high 780 can mean hundreds of dollars less in monthly mortgage payments – and thousands saved over the life of a loan, especially in the current housing market.

Seek the help of a professional: Even though the Internet offers both buyers and renters unprecedented levels of personal access to home listings, most consumers are better off reaching out to a real estate professional when they get serious about the buy-versus-rent decision. An experienced real estate sales associate can help them understand the nuances of their local market – including specific neighborhoods that have been great for first time homebuyers, or apartment buildings with flexible rent-to-buy options. A savvy professional can also list out all the costs associated with owning a home that didn't come into play when a renter was responsible to no one but a landlord. In most instances a buyer does not pay his/her sales associate a commission; that payment comes from the seller.

Aim for a home that you can afford: When considering possibly buying over renting, it is best for the potential buyer to have a realistic expectation of what they can afford. Again, an experienced real estate associate can help a renter do various calculations to get a handle on how income, debts and expenses impact what's affordable. Also try not to "overbuy." A recent Coldwell Banker survey found that out of 29 percent of brokers surveyed, first-time home buyers were more concerned with down payments 10 years ago than anything else, while only 17 percent said this is the biggest concern in today's market. Meanwhile, survey respondents also said that only 4 percent of first-time home buyers were worried about their credit scores in 1998, while 14 percent said it is more of a concern today.

Q. Any advice to offer consumers on renting versus buying in the current housing market?

A. If you do not have to sell a house to buy a house, this is a particularly smart time to buy. Though lenders have become somewhat more cautious in underwriting, mortgage financing is still widely available for those with proof of income and solid credit. And with inventories high and interest rates still low, first-time homebuyers have a tremendous amount of choice and flexibility in markets across the U.S. First time homebuyers also can benefit from the $7500 tax credit recently provided by the government.

Q. How long should a prospective buyer plan to stay in a home they plan to purchase?

A. A potential home buyer will want to stay in a home long enough to at least recoup the initial costs of their purchase. If a renter is thinking of buying – but anticipates that he or she may move on in fewer than two or three years – it may not be the proper decision.

Q. How can the consumer evaluate the cost differential between renting and buying?

A. When renting, it's easy to calculate whether a new apartment will fit in one's budget by simply asking about the monthly rent and the average utilities. Once a renter starts thinking about buying a home, the calculation gets more complicated. This is where their real estate sales associate can be of great assistance in understanding a range of financial considerations – from possible appreciation of homes in that area over time, to annual property taxes, to current mortgage interest rates, to costs for homeowners' insurance.

Q. How much does a prospective home buyer need to save up for the down payment?

A. Putting down 20 percent of the price of the house has long been the industry standard to secure the most favorable interest rate. Yet this is no longer the only option someone with documented income and a solid credit history has open to them. Seeking the guidance of a real estate sales associate and a reputable mortgage lender can help a renter looking to buy understand exactly what makes most sense for his or her situation – and for his or her local market. Coldwell Banker Mortgage recently reported that FHA loans, which require less than 20% down, are popular. In some cases, a prospective buyer may find they need to rent a little bit longer to save more money toward a down payment. But in other cases, they may realize that they have options to buy right away.

Q. How do you know if you are ready for responsibilities of home ownership?

A. Some people cannot wait to paint their white picket fence and plant daisies, while others dread the idea of tackling their own maintenance and home chores. If a renter knows ***exactly*** where they stand on that question, this question may have already answered itself!

Story Idea

From "Friend-Vestors" to Traditional Homebuyers: Advice for College Graduates Looking to Buy Instead of Rent

Each year, after college commencements, scores of young adults start packing. Some decide to move back home with their parents to save money, while others venture into the "real" world of rent and responsibilities. Some adventurous graduates even make the move to purchase a home, regardless of whether or not they can afford one alone. Instead, these college buddies, or even college sweethearts, take the plunge and become "friend-vestors."

This emerging trend as highlighted in the August 25, 2008 issue of ***Time Magazine*** article, "***The Buddy System.***"

A knowledgeable real estate associate can offer advice to young adults who decide to embark on this endeavor – which can help put them on the road to a solid financial future, or cause a host of problems.

Here are seven quick tips for consumers or media interesting in the "Friend-vestor" trend:

- Don't finalize any plans until you consult a lawyer, especially regarding titles
- Go over all the details of co-ownership with your tax preparer
- Before you buy a home together, decide how long you want to live there
- Make sure you're financially stable enough to take over payments on your own, if needed
- Ensure that you know your prospective co-owner ***very*** well – including how she or he has handled money issues in the past
- Before you begin looking for a home, outline the plan for renovations, upgrades and repairs (i.e., which ones will you do yourselves, versus which ones will require professionals)
- If possible, don't make any purchases for the home except for the house itself – as more jointly-owned property can be hard to divide down the line