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## Is It Better to Buy or Rent?

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THE thought has occurred to just about everybody who owns a home in a hot housing market: maybe it's time to cash out.

The hard part is figuring out how to do so. Only a few families can actually pick up their life in, say, California and move it to Nebraska. The other option - renting - has long been derided as the equivalent of throwing money away.

But renting might deserve another look right now. After five years in which rents have barely budged while house prices in New York, Washington, Los Angeles and elsewhere have doubled, renting has become a surprisingly smart option for many people who never would have considered it before.

Owning a home often ties up hundreds of thousands of dollars that might be invested more safely and more lucratively elsewhere over the next decade. And while real estate brokers may hate to acknowledge it, home ownership involves its own versions of throwing money away, like property taxes and the costs of borrowing.

Add it all up - which The New York Times did, in an analysis of the major costs and benefits of owning and renting, including tax breaks - and owning a home today is more expensive than renting in much of the Northeast, Florida and California. Only if prices rise well above their already lofty levels will home ownership turn out to be the good deal that it is widely assumed to be.

In the Bay Area of California, a typical family that buys a \$1 million house - which is average in some towns - will spend about \$5,000 a month to live there, according to the Times analysis. The family could rent a similar house for about \$2,500, real estate records show, and could pay part of that bill with the interest earned by the money that was not used for a down payment.

This gaping difference helped persuade Eloise Christensen to sell her century-old Victorian cottage in downtown Larkspur, Calif., for \$1.05 million this year. Now she rents a two-story house in Stinson Beach for \$2,400 a month. From her living room, she can sip tea and watch the waves from the Pacific Ocean.

"It just seems out of control," said Ms. Christensen, 43, a massage therapist and graphic designer. "It didn't seem to me that the market was going to be able to sustain these high prices."

There are obviously benefits to home ownership beyond the financial, like peace of mind and a feeling of stability. Owners cannot have their home yanked away by a landlord who has decided to move back in. Owners can also change the color of their living room walls or fix a draft seeping through their windows without asking permission.

Surrounding her Larkspur cottage, Ms. Christensen had built a garden with rosemary, lavender and boxwood hedges to complement the pear and fig trees already there. She is not doing anything like that in Stinson Beach.

Combine these benefits with the transaction costs of a house sale, and renting probably does not make sense for most people who already own their home and feel settled in it.

But the calculation can look quite different for those who are considering a move anyway or who do not yet own a home. At the very least, renters in boom markets, who often lament that they are wasting money, should know that their choice has as powerful an economic rationale as buying does right now.

"I am a proponent of buying," said Tchaka Owen, 37, a loan officer and licensed real-estate agent in Miami who is renting a two-bedroom apartment overlooking the bay there. "But you can get so much more for your money, renting instead of buying. We're paying half the amount we would be paying if we owned this place."

In Manhattan, 1,000-square-foot, two-bedroom apartments on the Upper East Side now rent for about \$3,700 a month. Buying a similar apartment costs around \$1.1 million, which can translate into monthly payments of \$6,000 or so.

To determine the cost of renting, the Times analysis added monthly rent and renters' insurance. For owning, the analysis included typical costs for home insurance, major repairs, property taxes and mortgage payments, as well as the tax deductions they create.

Renters were given credit for a small return - about 4 percent, after taxes - on the money they could have invested in bonds or stocks instead of spending it on a down payment and closing costs. Buyers received credit for the portion of the mortgage they were paying off, as opposed to the interest costs.

When the net costs of owning are less than those of renting, as is the case in Chicago, Dallas, St. Louis and much of the middle of the country, the argument for buying becomes overwhelming. So long as home prices do not fall sharply, home buyers in these places will do much better than renters.

But when owning is more expensive every month, buyers are betting entirely on price appreciation.

For new home buyers, prices in New York would need to rise roughly another 13 percent over the next five years for the average buyer to do better than the average renter over that span. In Northern California, where the gap between house prices and rents is largest, home values would need to go up about 19 percent by 2010.

Over the next decade, the break-even increase is about 25 percent in New York and 40 percent in California.

Such increases have been easily achieved in the recent past. But even economists who do not consider the real estate market to be in a bubble predict that price gains will slow. Other forecasters argue that values will fall, as they did on the coasts in the early 1990's, or be stuck near their current levels for years to come. No matter who is right, the buy-versus-rent debate is a closer call than it has been in years.

"If you believe you'll be moving in the next four or five years, I'd rent," said Thomas Z. Lys, an accounting professor at the Kellogg School of Management at Northwestern University. "If you're a

long-termer, I still would buy."

The single biggest misconception about home ownership, some brokers and economists say, might revolve around tax deductions. Many people seem to believe that buying a home can actually save them money because the interest on their mortgage is tax deductible.

But all that deduction does is reduce the cost of borrowing the money - a cost that would not exist if the family were not buying the home. Families spend about six years in a house, on average, according to the National Association of Realtors. In that time, the interest on a \$600,000 mortgage would add up to about \$120,000, even at today's low rates and even after the tax deduction, according to National City Corporation, a large lender.

"Don't be buying a house because you think you're saving on the taxes," said Frank Borges LLosá, owner of [FranklyRealty.com](http://FranklyRealty.com), a brokerage in Arlington, Va. "You'll save even more by not buying and renting."

Mr. LLosá added: "I'm not saying not to buy. I'm saying don't buy just for the tax reasons."

Many homeowners also do not receive the full deductions from home ownership. In the Northeast and California, homeowners now have so many deductions that some must pay the alternative minimum tax. This tax effectively wipes out part of their property-tax deduction, further cutting into the benefits of home ownership.

Other homeowners do not itemize their deductions or, if they do so, end up with total deductions only a little larger than the standard deduction that the government offers to all taxpayers, even renters.

"A lot of people hugely overvalue the mortgage deduction," said Dean Baker, co-director of the Center for Economic and Policy Research, a liberal group in Washington, "because they compare it to no deduction instead of comparing it to the standard deduction."

Mr. Baker is one of the avant garde renters. He and his wife sold their condominium in Washington last year for \$445,000 and now rent a similar one nearby for \$2,200 a month.

The Times analysis made a number of assumptions favorable to buyers, like giving them full credit for the deductions for mortgage interest and property taxes, noted Mark Zandi, chief economist of Economy.com, a research company. Still, the monthly costs of buying were more expensive than those for renting in any market where the price of a typical house was more than 20 times larger than the annual rent to live in it.

In the Bay Area, this "rent ratio" exceeds 33. In New York, Boston, Los Angeles and Miami, it is just above 25. A typical four-bedroom house in Brookline, Mass., for example, costs about \$1.2 million to buy and \$4,500 a month to rent, according to Chobee Hoy Associates Real Estate, a brokerage there.

At 20, Washington is right near the cutoff. But renters who live in apartment buildings, like Mr. Baker, often get an extra benefit: some portion of their utilities bill is typically covered by the building's owner.

Mr. Owen, the loan officer in Miami, and his girlfriend, Polly Thompson, pay \$1,700 a month for a top-floor apartment that has views of both the city's skyline and the Atlantic Ocean. After talking to brokers, he said he thought that the apartment would sell for close to \$650,000, giving it a rent ratio of more than 30.

"It's obvious," he said, "that renting is such a better deal."

But to many people, the psychological benefits of buying are almost impossible to overcome. Owning makes them feel that they have achieved the American dream, or it gives them the secure sense that, if nothing else, they have a tangible asset where they can sleep at night.

Those are nice feelings, indeed. The question is how much they are worth to you.