



Study Calls Today's Market Good Time to Buy

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Researchers from several universities have just completed a paper that looks at what they call the hurdle rate. This is the point at which it's equally smart to rent or buy if your only criterion is to build wealth. Based on today's hurdle rate, it's a better time to buy than to rent, because you can build more wealth owning than renting.

The study looks at what they call an indifferent renter. This is someone who is just as happy renting as buying depending on which choice is better at building wealth over a holding period, in this case eight years. The study assumes the renter puts the savings from renting into an investment to earn a return.

The hurdle rate is the point of equilibrium between renting and buying where it's a wash in terms of wealth building. If today's hurdle rate is lower than the average past property appreciation rate for a particular market, then it makes sense to buy, because future property appreciation should be such that an individual will, on average, create more wealth through owning rather than renting. On the other hand, if today's hurdle rate is higher than the average past property appreciation for a particular market, then this is a sign that ownership can be a drag on wealth creation.

"It's not a perfect reason to buy, it's just a test," says Ken. H. Johnson of Florida International University in Miami, one of the authors of the study, called "The Rent vs. Buy Decision," released about two weeks ago. "But it's a good sign that the market's turning."

The paper is part of a series Johnson and some other researchers have been doing on the rent vs. buy decision. This paper just looks at the narrow topic of the hurdle rate; other papers look more broadly at whether it makes sense to rent or buy based on financial considerations. In one earlier paper, renting can make more sense in some instances, at least in the short run, if renters invest all of their savings over a period of time in an instrument that generates a yield comparable to what they would earn in appreciation on a house in their market. But since few renters could realistically invest all of their savings from renting, it's more appropriate to assume renters don't invest all of their savings. And in these cases, owning is the overwhelmingly better investment over the holding period.

You can learn more about the paper that looks at the hurdle rate in the two-minute video above. The paper was sponsored by the REALTOR® University Research Center, which is part of REALTOR® University.