The Rentership Society

Suzanne Wright | May 2014

The idea that owning your own home is the ultimate American dream is being turned inside out by a new way of thinking.

Three years ago, when I moved from Georgia to Arizona to fulfill my long-held desire to live in the Southwest, I decided to try a novel approach to my new living situation: I opted to rent a home rather than purchase one. Meanwhile, back in Atlanta, my real estate agent found an affluent renter for the 100-year-old midtown condominium that I had owned for two decades — a 40-something attorney new to town who wanted to experience an urban Southern lifestyle while establishing his practice. Turns out, he owned a home in San Diego that he was renting out.

When I relocated, I spent my first seven months leasing a single-family house in a Scottsdale golf-course community that featured a view of the city’s famed Camelback Mountain. After my stint in Scottsdale, I set my sights on Cave Creek, Ariz., a tiny community carved out of the pristine Sonoran Desert. This time around, I opted for a three-bedroom, two-bath Santa Fe-style rental in a quiet neighborhood within walking distance of the town center and hiking trails. As it turns out, the novel approach of renting instead of owning has been a dream come true for me — and numerous others are turning similar dreams into reality.

The Rise and Whys of the New Rentership Society

It used to be that the only folks who rented were low-income or bad-credit types with limited options. But not anymore. Since the housing bust in 2008, the renter population has swelled to 43 million households, according to a 2013 study conducted by the Joint Center for Housing Studies of Harvard University. Demand is expected to continue to grow by 4 to 4.7 million households by 2023, according to the Harvard report. And surprise — that population includes successful professionals, families and retirees. A 2011 Morgan Stanley report posits that a combination of falling home prices, limited mortgage credit, continued liquidations and better rental options is fundamentally changing the way Americans live. This movement has been dubbed “The Rentership Society.”

As voluntary renters, or renters by choice, many Americans across all stages of their lives are living in far better (read: nicer, safer) neighborhoods than ones in which they could — or want — to buy. Additionally, they’re able to try on different neighborhoods, cities or states without having their money tied up in a mortgage — leaving them the freedom and flexibility to vacation frequently, relocate for a
job, start a business or make other investment choices.

The stigma of renting being akin to throwing your money away is also beginning to fade. Much like the choice to remain single or child-free, the decision to rent versus buy a home is increasingly being accepted as a legitimate — even favorable — option. According to a 2013 report from the MacArthur Foundation, 57 percent of U.S. consumers say buying has become less appealing, and 54 percent say that renting has become more appealing. A majority — 61 percent — say that renters can be just as happy as homeowners, turning the American dream on its head.

As property values have plummeted, owner-occupied housing is losing some of its luster. For the first time in recent history, the government is no longer promoting home ownership for all Americans. Many past and current owners are skittish about owning, while many millennials — those born between 1980 and 2000 — have seen the market volatility and are rejecting home ownership as a rite of passage altogether. Andy Seth is an entrepreneur, philanthropist and co-founder of Denver-based wealth-management firm LotusGroup Advisors. He says that from a global perspective, a $500,000 mortgage is hardly the stuff of dreams. He chooses to rent a house, and he’s keen to perpetuate a fresh American standard of success. “The new American dream is all about having the money, time and mobility to make life count. I choose to rent and fix my monthly costs, using the spare time and money to invest, travel and cultivate my community,” he explains.

Doing the Math

“There are tremendous emotional and financial benefits to renting,” says Jill Schlesinger, a certified financial planner and CBS News business analyst. “Renters have a blissful peace of mind. They never have to worry about the boiler imploding or the roof leaking or an appliance that stops working. All of those problems are easily solved with a quick call to a landlord, who has to deal with the hassle of repairs. It took a housing crisis for us to realize this.”

As appealing as this stress-free, no-strings-attached life is, though, it does have its drawbacks. Schlesinger herself is not immune to the societal pressures of home ownership, likening it to achieving grown-up status. “While renting can instill a sense of freedom, many homeowners will tell you about the great psychic benefits of owning their own homes, of nesting and creating a ‘home’ rather than simply a place to hang your hat for a while,” she says. If you’re thinking about buying a home merely as an investment, however, you might want to think again. Schlesinger explains, “When you really get down to it, housing is not exactly a financial asset — there are better ways to build wealth.”

Ken H. Johnson, a faculty director of Hollo School of Real Estate at Florida International University and one of the nation’s leading experts on the buy-versus-rent debate, agrees. “Home ownership is a tool for people who like to force themselves to save,” Johnson says. “Paying down a house is the No. 1 way most
Americans acquire wealth. Not all, but most should own rather than rent, due to ownership’s embedded commitment to save.” And while getting people to invest in something that retains value is a good thing, it’s not an across-the-board strategy. According to Johnson’s research, there are two groups who find renting advantageous over buying as a strategy for wealth creation: excellent savers, which Johnson defines as those who save 50 percent of every dollar above expenses, and millennials.

Why millennials? Because millennials move a lot to maximize their income through better jobs, and they lose wealth through the transaction costs associated with home buying.

“We need to tell our parents, our friends, our neighbors that there’s nothing wrong if you’re a tenant,” Johnson concludes. “I went 10 years without owning a house — renting for me was a sound financial decision. Now I think buying is a sound financial decision.”

Josh Hartmann, the vice president of Phoenix-based NEXMetro, is banking on the new class of voluntary renters. His company is building upscale, detached, single-family, leased-home neighborhoods in desirable suburban Sun Belt cities. To date, NEXMetro has gated communities completed or under construction in Tucson, Goodyear and Chandler, Ariz., and in McKinney, Texas, outside Dallas. Hartmann says units are leasing briskly, with an average occupancy of 90 to 95 percent. Renters run the gamut from new graduates and millennials to empty nesters and retirees.

“There’s been an ideological shift in lifestyle and demographics since the great recession,” Hartmann says. “We are filling a niche that didn’t exist, reaching a customer who wasn’t being served by more traditional multifamily housing options. Demand is really strong for this product. It’s like having a private residence without the obligations — landscaping, HOAs, maintenance — of ownership.”

Cathy Hassett exemplifies that carefree lifestyle. She is over 55 and splits her time between a home in Florida, her equestrian business in Asia and visiting her five children around the country. Her primary residence is a high-rise luxury apartment by Related Midwest on Lake Shore Drive in Chicago. With such a demanding schedule, Hassett prefers renting because of the maintenance-free lifestyle and amenities it affords her.

“Because I travel so much, it’s wonderful to have building staff who will do anything for you,” says Hassett of the five-star service that residents of her building receive.

Thirty-one-year-old Phoenix-based freelance copywriter Sara Arnold and her live-in boyfriend are self-characterized “career changers.” She outlines several reasons they choose to rent.
“We are both working, but the big drivers for us are repaying student loans,” she says. “It’s hard enough to split our money into traditional savings and retirement, and throw in saving for a house. It was a conscious decision of where to focus our money in a way that makes the most sense for us right now.”

She adds that though they think about buying, they may want to make an out-of-state move in the next couple of years. Millennials like Arnold prize mobility.

“We’ve gotten to where we are by having options,” she says. “We want to keep them open.”

Is Renting Right for You? If you’re weighing whether to rent or buy, consider the following factors:

Where do you live? In some markets, such as Manhattan, Los Angeles and San Francisco, owning may be out of reach for even the most successful professionals. Many high-net-worth individuals choose to rent in those markets — sometimes permanently. Even if you can’t afford to buy the American dream, you may be able to rent it.

What does your career path look like? Post-recession, many professionals are conducting nationwide job searches; some jobs necessitate frequent moves. A house can be an anchor when it comes to the mobility you may need to remain marketable.

How’s your credit? Tightened lending standards mean that less-than-sterling credit will cost you more in a mortgage. You might be well served to burnish your credit score now to enjoy better rates in the future.

How much personal flexibility do you want? Renting gives you the freedom to join an out-of-state love or an aging family member. If you are not sure what your next step is, renting can provide greater peace of mind.

How much financial exposure can you tolerate? With a rental, your costs are fixed. As an owner, unforeseen costs are a major stress factor and can really add up, especially if you’re not the do-it-yourself type.

How much cash do you have on hand? Many experts are now suggesting you not buy a house unless you have 12 months of mortgage payments, taxes, insurance and maintenance costs socked away.

Suzanne Wright lives and hikes in Cave Creek, Ariz., amid cactuses and coyotes. She’s written for Arizona Highways, Men’s Journal, National Geographic Traveler, Veranda and Wine & Spirits.