

## To buy or not to buy?

By KEN H. JOHNSON

Is there any dispute as to the superiority of home ownership over renting? As this letter to The Herald would suggest, yes, there is.

Home ownership is the American Dream. It enhances civic pride, improves voter turnout, lowers crime, and produces higher levels of education. Tax policy encourages people to buy rather than rent.

But from an individual financial standpoint, it doesn't always make sense. A recent study by myself and my colleague, Eli Beracha, sought to balance the benefits (appreciation and interest deduction) against the costs (maintenance, taxes, lost interest income from down payment, and selling expenses) of ownership and then compared the "net cost" of ownership with that of renting.

The study looked at 28 communities around the country, including South Florida.

It examined the period of 1978 through 2009 and assumed a reinvestment of any rent savings (the difference between a mortgage payment and a generally smaller rent payment).

In the majority of the surveyed years, renting turns out to be the better choice financially.

This is not to say that renters became wealthier than home owners. Home ownership is, after all, a forced savings plan. You are putting money into a house. Although renters save money by paying less in rent than they would on a mortgage, those savings will often be spent in a "cloud of consumption" -- on consumer goods rather than on a financial instrument that brings a return.

If home owners become wealthier, it is often not because of the financial superiority of ownership but rather due to the discipline of saving imposed by the requirement of making a mortgage payment.

The study clearly suggested that there is an optimal level of homeownership in the United States -- not everyone should be an owner. For instance, almost certainly there is someone presently in the Miami area who bought in 2007 and is now turning down a better job in another part of the country because they are upside down (owe more than the value of their property) on their home.

The study also suggested that governments at the local, state and national level should not pursue policies that encourage everyone to buy a house. We went this direction during the real estate boom. Everybody was supposed to buy, rather than "throw their money away on rent." Those policies contributed to the overheated housing market and the subsequent meltdown that has put us in the bind we are in today.

Local rents, local prices, property appreciation rates, marginal tax bracket, mortgage interest rates, the return on a market portfolio, maintenance expenses, property taxes, and, most

importantly, the buyers' estimated length of stay in a property all should be factored in when deciding whether to buy or rent.

The path to financial success always requires due diligence on the part of investors, and, make no mistake, homeownership is an investment. Potential homeowners should stand ready to make real estate professionals financially justify the buy-versus-rent decision.

As a former practicing residential broker, I think that many within the community of real estate professional are capable of and willing to make this financial breakdown for you. (Of course, brokers have a vested interest in having a sale go through.)

As an alternative, you should arm yourself with the knowledge needed for this kind of analysis. Many colleges and universities stand ready to offer this information at a relatively low cost.

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