

# To Buy or to Rent?

by Nick Gromicko

In many places where real estate advice is offered, from the Internet to advice columns and late-night infomercials, listeners and readers are told some variation of: "Across every income bracket, homeowners are rich and renters are poor." And, on the whole, this is true; examine the captioned chart, which summarizes findings from the Federal Reserve Board. But does homeownership *cause* people to be rich? It would be nice if the key to wealth were so clear, but it's just as likely that buying houses is just something that wealthy people do, and buying houses didn't *create* wealth.

Unfortunately, this distinction is largely glossed over or ignored by those with a vested interest in getting people to buy homes, or who are simply blinded by the homeownership craze.

Annual Income	Owners' Worth	Renters' Worth
\$80,000+	\$451,200	\$87,400
\$50,000 - \$79,999	\$194,610	\$25,000
\$30,000 - \$49,000	\$126,500	\$10,600
\$16,000 - \$29,999	\$112,600	\$4,200
under \$16,000	\$73,000	\$500

Wealth is often built by investment, and prospective homeowners should compare the investment opportunities gained and lost when they purchase a home. A homeowner may bag a healthy profit if the property appreciates sharply, but s/he loses the option to redirect the funds for the down payment and hidden costs to other forms of investment, such as a mutual fund or starting a business. Just make sure that you choose an investment that you'll enjoy, as you won't "wake up in the middle of the night and say 'Wow! Look at my tax deduction!'" as Lewis Wallensky told *The Wall Street Journal*.

Obviously, there are advantages to homeownership, as homeowners get to write off mortgage interest while building equity. And, with any luck, these homeowners may be eligible for a significant tax break if they eventually sell. Homeowners also enjoy liberation from constraints that plague renters, such as the constant fear that they'll lose their deposit every time they hammer a nail or repaint a wall. And monthly mortgage payments are gradually earning homeowners a valuable asset, rather than the equivalent of setting their savings ablaze on the first of every month. But, rest assured; that blaze will burn on into homeownership, only with less predictability. A leaky roof or broken water heater can set a homeowner back thousands of dollars, and even foreseeable expenses, such as property taxes and insurance, will decrease their net worth in the same fashion as a rent check. And, if the homeowner doesn't pay his mortgage, property taxes, insurance, or HOA fees, he can be foreclosed on and potentially lose everything. Renters can be forced onto the street, too, but at least they don't lose much more in addition to their home.

Then there's a geographical component to the balance between the cost-effectiveness of homeownership versus renting. Minneapolis tops the list of markets that offer the best bargains for prospective homeowners, followed by cities hard-hit by the foreclosure crisis, such as Miami, Fresno, Mesa, Jacksonville, Phoenix and Las Vegas. In New York City, though, you're better off paying the landlord than the bank. Other such cities include Portland (Oregon), Seattle, San Diego, San Francisco, Oklahoma City, Kansas City (Missouri), Cleveland, Omaha and Dallas.

Experts advise that you should buy a home if you plan to stay there for a long time and you can afford a large down payment. Real estate appreciates over the long-term, although it might dip slightly after purchase. If you can ride out that dip, you won't be forced to sell and take a loss. A home inspection performed by an InterNACHI inspector will identify hidden defects and illuminate the risks of a prospective property purchase. Also, you get a better interest rate and you won't have to purchase mortgage insurance if you put 20% down. But if you don't have the funds to put down 10%, or you plan to leave in a few years, and a slump in house prices seems likely, you should reconsider homeownership. Also, you should expect to pay around 30% of your monthly income on your mortgage. If you'll be paying more than half your income toward your mortgage, you should probably stick to renting.

In summary, buying and renting both afford unique investment opportunities, headaches and perks.