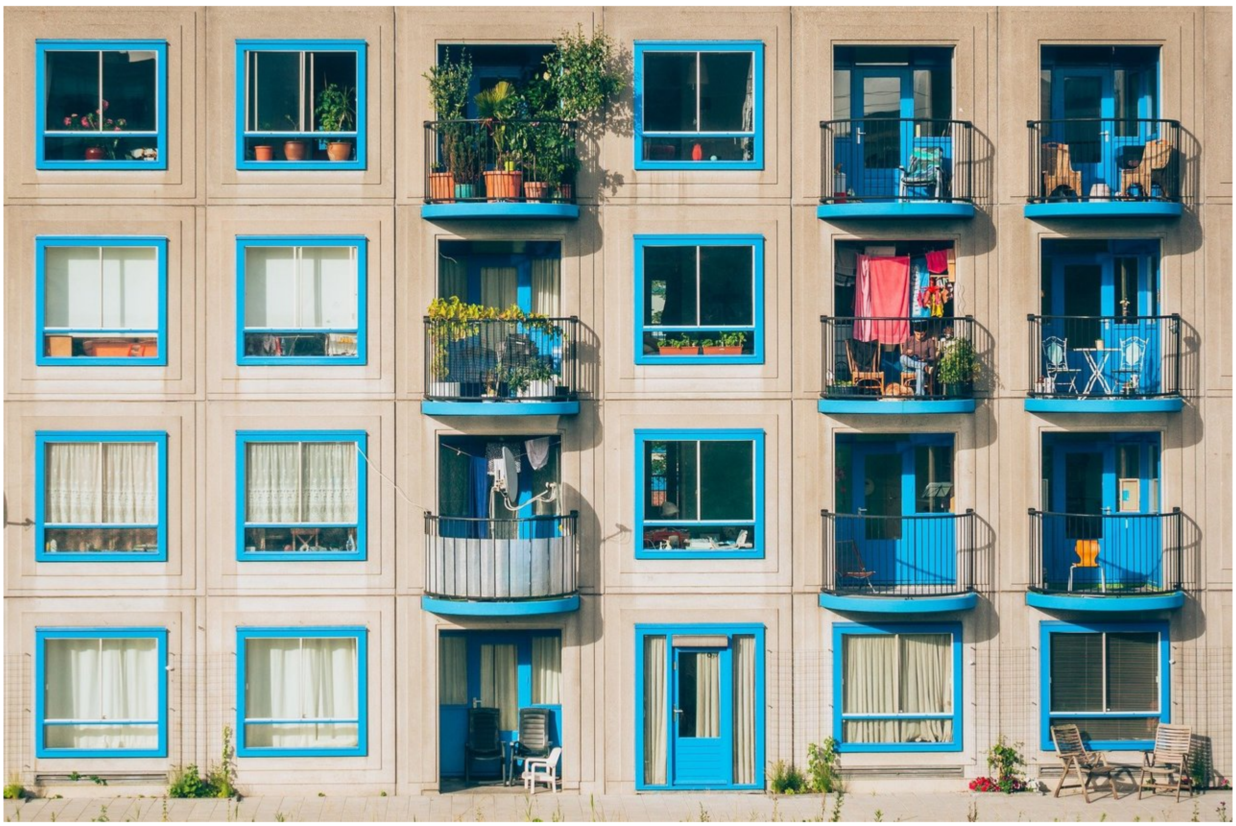
Renting a home is clearly better than buying in much of the nation

June 18 2020, by Paul Owers



Credit: CC0 Public Domain

The cost of homeownership is outpacing the cost of renting across the United States, and the discrepancy between the two is rising sharply in parts of the Southeast, Midwest and Pacific Northwest, according to the latest national index by professors at Florida Atlantic and Florida International universities.

The Beracha, Hardin & Johnson Buy vs. Rent Index determines whether consumers will create wealth faster in buying a home and building equity or renting the same property and reinvesting the money they would have spent on ownership, such as taxes, insurance and maintenance. The index examines the entire U.S. housing market but isolates 23 key metropolitan areas, factoring in home prices, rents, mortgage rates, investment returns, property taxes, insurance and home maintenance costs.

The quarterly numbers show that Atlanta, Dallas, Denver, Houston, Kansas City, Miami, Pittsburgh, San Francisco, Seattle and Portland, Oregon, are all significantly above their long-term fundamental home price levels. That means renting clearly is the better option in those areas, according to Ken H. Johnson, Ph.D., a real estate economist within FAU's College of Business.

"These metro areas are the most at risk for home price declines, including any future negative impacts to housing values brought about by COVID-19," he said. "We're still waiting to see how the pandemic will affect the housing market."

The remaining metros tracked in the index—Boston, Chicago, Cincinnati, Cleveland, Detroit, Honolulu, Los Angeles, Milwaukee, Minneapolis, New York, Philadelphia, San Diego and St. Louis—appear to be under little or no pressure in terms of the demand for homeownership. That suggests it's a toss-up between renting and buying in those areas.

Homeownership traditionally was considered the far better option than renting for building wealth, but the historic housing crash from

2006-2011 changed that perception for many Americans, and the effects of the COVID-19 pandemic will soon be felt. The buy vs. rent index, first published in 2013, shows that even when home prices are rising, renting can be equally or more lucrative for disciplined investors.

Still, renters who would not invest the money they would have spent on ownership are better off buying a home, according to Eli Beracha, Ph.D., an assistant professor in the Hollo School of Real Estate at FIU.

"Homeownership doesn't necessarily generate attractive rates of return, but it does force consumers to be more mindful of their expenses," he said. "Renters should be honest with themselves. If they aren't going to put their extra money into the stock market, then the safer option over the long run would be to own."

The index's housing price numbers cover all transactions for the months of January, February and March, before much of the effect from the coronavirus pandemic was felt nationwide. Johnson and Beracha agree that the timing makes it difficult to predict what COVID-19 may do to home prices.

"If effective treatments and a vaccine are developed quickly, COVID-19's impact on U.S. housing prices should be minimal," Johnson said. "But if the nation remains under a long-term threat from the virus, the potential for significant housing price declines is high."

Provided by Florida Atlantic University

Citation: Renting a home is clearly better than buying in much of the nation (2020, June 18) retrieved 26 June 2024 from https://phys.org/news/2020-06-renting-home-nation.html