

THE RENTAL FUNDAMENTALS

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CTW FEATURES

The American dream of owning your own home has turned into a nightmare for many people who have seen market values plummet, mortgages become unaffordable and credit options dwindle. While home ownership offers plentiful tax-lowering and equity-building benefits, the truth is that renting a residence is still the smarter choice for many, say the experts.

"The American dream of owning your own home gratifies our egos and our feeling of independence but has very little financial benefit unless you plan to live there a long time," says Alan Brymer, a Provo, Utah-based real-estate investor. "Buying a house is only your best investment if values are rapidly increasing or if it costs as much to rent each month as it does to own a home."

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Rick Lorenz, a licensed real-estate broker in Durango, Colo., says that owning "is not for everyone. That's part of the reason the economy is in the mess it is in right now. Owning is a privilege that should go to responsible individuals who have shown and established a good credit history and have some cash down payment that comes out of their own pocket."

Ask Spencer Sherman, author of the book "The Cure for Money Madness"

(Broadway Books, 2009), and he'll tell you that the best candidates for renting instead of buying include those who have little extra disposable income, seek to diversify their investments, don't want the stress of home maintenance, lack the cash reserves for unexpected home costs, and are arriving in a new neighborhood, job or city.

"This also includes anybody who needs flexibility - for example, if you don't want to limit income potential. Owning a house keeps you in one area, where the lucrative jobs may be elsewhere," Sherman says.

Among other ideal rental candidates are those with less-than-desirable credit, credit-card debt and a history of spending problems, says Peggy Spiro, certified real-estate divorce specialist, RE/MAX Alliance, Louisville, Colo.

"I would also advise someone who is potentially moving within three years to stick to renting," she says. "A home can be [costly] and can create more debt than necessary. Homebuying is a privilege, not a right. One has to earn that privilege by saving money."

The advantages renters enjoy are plentiful, Brymer says. The biggest is security. "In case employment or incomes change, you also have the freedom to move out if your circumstances change," he says. "And having someone else do all of the property maintenance

is nice for those who either don't know how, don't have the time, or just don't feel like doing it."

One of the biggest plusses of renting over owning is "relative liquidity," says Walter Hall, chairman of HouseSavvy USA, Norwell, Mass.

"Renters have no investment to recoup when needing to move on, whereas homeowners are locked into a relatively non-liquid investment when needing to sell and are controlled by the vagaries of the market at that time, particularly the economy and credit market."

Renting as opposed to buying can also reap dividends over the long term, as Hall demonstrates.

"Over the years, home buying has made a lot more financial sense than renting. However, there have been certain relatively short periods of time when renters have been way ahead financially," Hall says. "As an example, consider one person renting a property for \$1,500 a month from 2005 to 2008, and another person buying a home for \$400,000 at the peak of the market in 2005 and having to sell it for \$320,000 in 2008. This is not only a capital loss of \$80,000 but a further investment of mortgage interest, taxes, insurance, maintenance and repairs that - over and above what the rent would have been - would be at least in the range of another \$20,000."

The bottom line, says Rhonda Duffy, broker for Duffy Realty of Atlanta, Alpharetta, Ga., is that, "leasing helps keep your monthly housing expenses



lower and limits your exposure to losing money in a declining housing market. It also allows a person who is fiscally responsible to sleep better at night if he was considering stretching to buy his or her next house instead.”

However, there is the flip side to consider, Spiro says.

“A homebuyer has better leverage today,” she says. “In Colorado, for example, the rental rates are up, not down. With so many people back in the rental market due to foreclosures, the rental market is very strong, so there is no negotiating [for lower rents].”

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