

ECONOMIC SCENE

# In Sour Home Market, Buying Often Beats Renting

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In much of the country, for much of the last decade, renting a home has usually been a better financial move than buying one. It's been true in Southern California, San Francisco, Phoenix, Las Vegas and large parts of Florida, the Pacific Northwest and the Northeast.

## Multimedia

INTERACTIVE: [Is It Better to Buy or Rent?](#)



Compare the costs of buying and renting homes.

Metro area	2009	2005
Oakland, Calif.	36.3	47.4
Honolulu	34.8	37.5
San Jose, Calif.	32.3	42.8
San Francisco	28.4	40.4
Seattle	28.1	32.4

Interactive Feature

## [How to Decide](#)

Renting required you to suffer the scorn of many real estate agents and the skepticism of friends and relatives who believed that owning a home was almost always superior. But renting also would have typically saved you thousands of dollars a year.

Now, however, the situation is getting more complicated because the housing bust has been playing out unevenly across the country.

In some once bubbly markets, prices have fallen so far that buying a home appears to be a bargain, based on a New York Times analysis of prices and rents in 54 metropolitan areas. In

South Florida, Phoenix and Las Vegas, house prices — relative to rents — are as low as in places that never experienced a bubble, like Indianapolis and St. Louis.

But in a handful of other areas, including San Francisco, Seattle and Portland, Ore., house prices remain significantly higher than they were before the bubble began. People who buy a home in these areas will face higher monthly costs than if they rented, even after taking tax deductions into account. As a result, buyers are effectively betting that prices will rise enough in future years to cover the difference.

The country's two biggest metropolitan areas, New York and Los Angeles, are a microcosm of today's more nuanced real estate market. Average house prices across both areas have fallen enough that buying may now be a good deal for many families. Yet there are still significant pockets where renting looks promising — including parts of Manhattan, the New York suburbs and Orange County, Calif.

The buy-versus-rent question is particularly relevant right now. To qualify for an expiring federal [tax credit](#) of up to \$8,000, home buyers must sign a contract by April 30 and close on the house by June 30. Many economists also expect mortgage rates [to rise](#) in coming months.

Camela Witters, a 38-year-old trophy engraver in Las Vegas, plans to close on her first home purchase — a four-bedroom, \$164,000 house nearly identical to the one she is now renting — in the next few days. She decided to buy, she said, when she found out she could save money by doing so. “I didn't buy a house when everyone did,” said Ms. Witters, who lives with her companion and their children. “So I'm kind of taking advantage of all the foreclosures.”

The Times analysis is based on comparing the costs of buying and renting a similar home, using data from [Moody's Economy.com](#), a research firm, and from real estate agents. This kind of comparison can never tell someone for sure what the best financial move will be. But it does show whether a buyer will need a big jump in future prices to cover all the costs of owning — including the down payment, closing costs, property taxes, mortgage interest, repairs and co-op fees.

A simple way to do the comparison is to look at something called the [rent ratio](#): the purchase price of a house divided by the annual cost of renting a similar one. The number 20 provides a useful rule of thumb. When you do the math, you discover that a ratio above 20 means you should at least consider renting, especially if you may move again in the next five years or so. When the ratio is well below 20, the case for buying becomes a lot stronger.

In many large metropolitan areas, including New York, Los Angeles, Chicago, Houston, Dallas, Atlanta and South Florida, the average ratio is now 16 or lower. It was more than 25 in several of these places at the peak of the bubble, about five years ago. With a ratio as low as 16 and interest rates as low as they are, the costs of owning can be less than the costs of renting — and buyers will end up worse off only if prices fall considerably more.

A two-bedroom Spanish-style [condominium in Beverly Hills](#), Calif., for example, recently went on the market for \$1.075 million, notes Don Heller of Prudential California Realty. Including taxes, condo fees and the tax deduction for mortgage interest, a typical buyer making a 20 percent down payment would face an effective monthly payment of about \$6,000. Compare that with the monthly rent on a similar two-bedroom condo nearby — \$7,600.

The math works out similarly in less costly areas, too, be it once booming cities like Phoenix and Orlando, Fla.; Midwestern cities like Minneapolis and Cleveland; or the outer-ring suburbs of most big cities. Much of New York's outer boroughs appear to fall into this category.

The problem for potential buyers is that many real estate agents argue for buying even in places where the numbers don't add up. In the Bay Area, the rent ratio remains around 30. In Seattle, it's about 28. In parts of Manhattan, it appears to be about 25, according to current listings.

“In most markets, you're better off buying,” [Thomas Lys](#), an accounting professor at [Northwestern University](#), says. “But once the ratio gets to 25 or 30, I'd say, ‘You know what? There may be a bubble.’”

The rent ratio has long been higher in New York and San Francisco than most places, perhaps because of zoning rules or because the cities are home to large numbers of affluent households willing to pay extra to own. So it's possible that prices will not fall. But they are already high enough that the monthly costs of owning often exceed the cost of renting — even without taking into account the down payment or other one-time costs.

A big reason is that prices still haven't fallen much in some places. In Rye, N.Y., the average per-square-foot sale price was only 9 percent lower early this year than at its 2007 peak, according to [MDA DataQuick](#). Some similarly affluent parts of the Los Angeles, Miami and San Diego areas have experienced declines of 25 to 50 percent.

Obviously, owning a home brings benefits that are not strictly financial. It offers stability and, for many people, comfort. As I [have written](#), I bought a house in 2008 (in part because the rent ratio in my area had fallen to about 16). Even in Manhattan, San Francisco or Seattle, a family confident that it will stay put for a decade or more may well be wise to buy today.

But it's worth remembering that the advantages of homeownership are frequently exaggerated. The mortgage-interest tax deduction doesn't eliminate the cost of borrowing money; it merely reduces it. The freedom to paint your house any color you wish comes with the responsibility of paying for a new roof when the time comes. The \$15,000 or \$30,000 or \$50,000 that real estate agents' fees add to the price of a house can wipe out a lot of other savings.

The most striking part of the current situation may be that despite everything that has happened in the last few years, there are still places where renting does not get enough respect.

**Courtesy of JB Goodwin**