



## Renters Lose Edge on Homeowners Cost Gap Returns to Historical Norms in Some Markets as House Prices Drop

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The relative cost of owning versus renting is swinging back in favor of homeownership in some U.S. markets, buoyed by several quarters of sharp declines in home prices.

At the height of the housing boom, as home prices surged, demand for rentals started to rise as the gap between owning and renting widened significantly. Even after the housing market soured, apartment demand grew as former homeowners became renters, allowing landlords to push healthy rent increases.

Now, after two years of rapid home-price depreciation, the relationship between the cost of rental payments versus after-tax mortgage payments is tilting toward ownership in a number of metropolitan areas.

Over the past 18 years, after-tax mortgage payments have averaged 26% more than rent payments, according to Green Street Advisors, a real-estate consultancy based in Newport Beach, Calif. In 2006, at the height of the housing bubble, mortgage payments reached as high as 66% more than rent payments. But by the end of 2008, average monthly rent for the largest 50 metropolitan areas was \$1,045, compared with after-tax mortgage payments of \$1,300, assuming a rate of 5.5% on a 30-year fixed mortgage. That means mortgage payments averaged just 24% more than rent payments, the narrowest gap since 2001.



In more than half of the top 50 U.S. housing markets -- including Los Angeles, northern Virginia and Las Vegas -- the ratio is now below its 18-year average. In Los Angeles, for example, mortgage payments averaged 60% more than rent payments between 1990 and 2008. Now, those payments average 30% more than rent.

"We're not saying on an absolute basis that it's cheaper to own a home, but on a relative basis...owning is looking much more attractive than it has in a long time," said Andrew McCulloch, a Green Street analyst. While the shift doesn't mean that renters will rush to buy homes soon, "it's not a 'no-brainer' anymore if they're going to rent versus own," he said.

If mortgage rates fall to 4.5% -- and some economists have called for the government to push rates to that level to ease the housing crisis -- mortgage payments would average 14% more than rent payments, a level last reached in 1998.

A separate report by Moody's Economy.com also finds that home prices relative to rents are more in line with their historical relationship. Using data that measure average home prices and rent payments for 54 metro areas between 1984 and 2004, Moody's Economy.com estimated that eight markets are "undervalued." In those eight markets, home prices relative to rents are below or within 5% of their historical levels. "The bottom is coming into view," said Mark Zandi, chief economist at Moody's Economy.com, "But we've still got a ways to go."

The report notes that home prices relative to rents remain well above historical levels in 30 markets, including Philadelphia; Portland, Ore.; and Virginia Beach, Va. Lower prices and interest rates are spurring some buyers to get off the sidelines. Jason Schanta, 37, an independent contractor, has been ready to buy for three years, but he said he waited because Southern California home prices had become "outrageous."

"I'm not an economic guru but I knew the bubble was going to burst," he said. He is ready to buy a \$500,000 home if Bank of America Corp.'s Countrywide Financial unit approves a short sale on the property in San Juan Capistrano, Calif. (In a short sale, the lender agrees to sell a home for less than the value of the mortgage.) Mr. Schanta currently rents a three-bedroom house for \$2,250 a month, and says that he will pay just \$150 more in mortgage payments and taxes for a house that has an additional bedroom and 350 more square feet. "Renting now costs just as much as buying," he said.

Others are finding that they could pay less on their mortgage than they would on rent. Carla Zeineh, 22, and her husband recently began shopping for a home in Irvine, Calif., and discovered that with a 5% mortgage rate, her monthly payment on a \$350,000 two-bedroom home with 20% down could be less than the \$1,800 month that they pay in rent on their two-bedroom condo. ■

