



# nerej

## **Renting: A cultural shift away from ownership, or not?**

January 12, 2012 - Appraisal & Consulting

seems like it was a pretty good year. While things were clearly slow, the Dow Jones was up 6% year over year, corporations are showing profits, and there is increased stability in the banking system. Remarkably, the number of housing sales has also occasionally increased. On the down side, Europe's problems loom over us, and gridlock in Washington continues to create uncertainty.

Over the holiday break, I spent some time in New York City with our son and some other young friends, and talked to them about uncertainty and its influence on their housing situation. I was further motivated to read up on what other young people were thinking with regard to the next move from dormitory life, or parents' homes, or what other housing stage they were in. A few things became very clear. First, the 20 to 30 something's did not necessarily share the American dream of owning their own house, at least at this point. Despite government incentives, low interest rates, and vast supply of housing, they had just witnessed several years of a house being nothing more than an albatross around their parents' neck. They had known people who lost their jobs, couldn't afford their mortgages, needed to move elsewhere to work but couldn't sell their house, or simply needed to downsize but were stuck.

Combine this recent history with a younger person's view of the world. Their culture is different. They are used to carrying their work and personal life with them on the small iPhones and iPads. They are used to searching far and wide for work on the east coast, west coast and any area with in between. They are coming from different living accommodations, cohabitating with friends, partners and complete strangers. Younger people are living in uncertainty: uncertainty about where their next job is, where the economy is growing, whether the economy is growing, and who and where they will find mid-term and life-long friends and partners. They need flexibility.

Enter the multifamily rental market. As you've read, apartment rents as well as occupancy rates, are going up. Because of all of the uncertainty and need for flexibility addressed above, people are changing their preferences from owning towards renting, according to the Center for Behavioral Economics at the Federal Reserve Bank of Boston. Their findings indicate a drop in desire for ownership by several percent over the last five or six years. Additionally, according to futurists like Richard Florida has written in his book, "The Great Reset," apartment living is on the rise in the U.S., and has been for a while in Europe.

It is not only younger people who want/need this flexibility. The baby boomer generation is also showing signs of selling their homes and moving into the rental market. Boomers cite similar needs for flexibility, but with different objectives. They want the ability to pick up and travel, without worrying about the responsibility of home ownership. If they have equity in their homes, they want to use it for retirement. They are well aware that, at least for the next several years, their home values will not appreciate significantly, and the cost of ownership continues to rise in regard to maintenance, insurance, and taxes. Their time horizons have narrowed, and they prefer to spend

their money elsewhere.

As we know from experience, if this pattern continues, the pendulum could swing in the other direction, with home ownership becoming more affordable relative to rental, particularly if interest rates stay low. Some also disagree altogether with the staying power of the rental market, and cite traditional reasons for home ownership: need for good school districts, long-term, non-transient neighborhood life, doing what you want without landlord permission. They say that even if home ownership is more expensive, and homes do not appreciate as they have, these other aspects of ownership are critical, particularly as people form families.

Typically, I normally agree that "what has been, will be." Nothing is new under the sun. Thus, I see the statistics on the growing apartment market, but also believe there will be a typical pendulum swing in the other direction at some point. Still, there is a lot of evidence of a real cultural shift. Unsure? Ask your kids during the next holiday break.

Daniel Calano, CRE, is the managing partner and principal of Prospectus, LLC, Cambridge, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540