



nerej

Buy vs. Rent redux lost opportunity?

June 11, 2015 - Appraisal & Consulting

Almost three years ago, I wrote an article predicting that the Millennial generation (age 18-34) was soon going to change over from apartment renters to home owners. I surmised that rents were high and increasing, interest rates were low, home values had clearly bottomed and were on the way up. What possible reason could keep rational people from buying as opposed to renting? I did the math for them; the pro forma never lies. The decision was a no brainer.

I was wrong - if not in fact, certainly in timing. Today, rents have increased between 15% and 25% from four years ago, are still increasing, and people are still renting. New projects have been built to accommodate more, not less, demand for renting. And Millennials are still holding off, despite all logic.

How did I miss this one? Again, if it had been me, I would have been buying real estate, the asset we real estate addicts have long cherished and believed in. I would rather amortize my own mortgage, rather than the developers' construction loan for the apartment building.

Let me confess where I went wrong. Generally speaking, I underestimated the non-economic, irrational behavior that I had only given a token nod to in previous writings...mostly that the younger generation wanted flexibility above all things. Flexibility was the commitment that trumped all, and potentially precluded the profit of ownership that has ensued over the last three years.

I confess that I underestimated, or worse, misunderstood the mobile world, which technology has helped grease the tracks for nomadic living. Better smart phones, incredibly creative apps, cheaper transportation, allow people to be on the move both at work and "at home". Why own a car, a home or a vacation cottage, when you have Zipcar, Uber, Airbnb, not to mention hundreds of threads of social contacts for sharing housing and transportation around the world.

I underestimated the quality of apartments being built, some surpassing the quality of new condominiums. From a young person's perspective, apartments had better exercise rooms, better WiFi, better common social areas, and were more pet friendly than condo complexes. They were designed specifically to their tastes, rather than to a broad cross section of society, and they would socialize with similar people with lots of networking.

I underestimated the wariness of the younger generation towards real estate as a bullet proof asset. These are people for whom the 2007 real estate crash is most vivid in their minds. They were the ones who perhaps saw parents during sleepless nights, worrying about what next to do as their property values fell. Millennials do not see real estate as an ever appreciating asset.

Finally, the younger generation seems to spend what they can, not necessarily wantonly, but rather with a belief in their future. Understandably they have high expectations for good jobs and multi-faceted careers. But, they need to remain flexible in order to reach their goals. They rent, they share, they eat out and order in. They entertain in restaurants, not in elaborate home kitchens. If they can, they retain flexibility up to the last minute of every day.

Despite my confession, there are some small green shoots that renting will still actually morph towards buying. In a recent article in the Los Angeles Times, the author quotes statistics from Redfin, a national real estate brokerage firm, that first time buyers have accounted for over 55% of recent home tours, the highest rate in recent years. The Redfin chief economist said of Millennials "they are sticking a toe in the water." These are their conclusions: some people are tired of renting; some have better access to down payments; new buyers' assistance programs exist. Perhaps most of all, some are beginning to form families and think about future children needs. So, maybe my prediction was simply too early. I am as interested as you are in finding out.

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