

## Buy versus rent: It must be the right time

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A few years back, I wrote an article about why there was increase in apartment dwellers versus home buyers. In general, it was clear that young people who would normally be buyers, were living in an uncertain world, nomads seeking jobs in far away areas, cohabitating with friends and complete strangers. The younger tier market had problems of affordability, lack of down payments, lack of credit, and no confidence in housing appreciation.

Things have changed. Millennials are older/wiser, forming families, more likely to find employment and tired of funding the apartment developer. Perhaps most importantly, renters now see ownership, once again, as a potentially appreciating asset. It has been eight years since the market started to crash, and young people who might have been buyers then, couldn't or wouldn't. Now some have been quietly establishing credit and saving some money. And the stock market has grown dramatically, making down payments more possible.

But, the most compelling reason for buying versus renting is the actual cost analysis, combined with a small but new confidence in home appreciation and even inflation. Rents have been driven up significantly, in some cases 25% per year over the last four years. As an example, a tenant paying \$3,000 per month for a two bedroom apartment (not atypical in many areas) can now afford a \$250,000 mortgage (approximately \$1,300 per month) a property tax bill of \$500 per month, a home insurance bill of \$300 per month, a few hundred per month left over for repairs and improvements and end up paying less than rent.

We have clearly seen price appreciation in the residential market. Further, given what our government is doing to keep interest rates low, there will probably also be inflation in the future. If home prices inflate, and buyers have fixed cost debts for the next 15-25 years, there will be significant financial leverage. In addition, if buyers enter the market now, their assets will keep pace with inflation, and they will be able to trade to different locations if they have to move or, for larger houses with modestly more capital.

The only question in my mind is that over the last few years, significant amounts of new apartments have been constructed. These new units come with beautiful finishes and common areas such as lounges, conference rooms, pools, fitness centers, and movie theaters...difficult amenities to give up. There is a fair chance renters may continue to rent for a while, putting off acquisitions, simply due to inertia, and their understandable resistance to give up such plush amenities. In the alternative, apartment developers may convert units to condos, and renters will become owners of these new units, the best of all worlds. For those people thinking ahead, it seems to be the right move.

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