

HOUSING: It's nearly as cheap to buy as rent in local market

Key measure of affordability shrinks for new buyers

By BRADLEY J. FIKES - bfikes@nctimes.com | Posted: May 23, 2010 12:00 am |

The once-huge disparity between a typical mortgage payment and the average rent has fallen to its lowest level nationwide in nearly two decades.

For financially qualified people who want to move out of the renting class and own their homes, that narrowed gap is the best news in many years.

"If you look at it on a cost basis, it's become almost comparable," in San Diego County, said Michael Lea, director of the Corky McMillin Center for Real Estate at San Diego State University.

Renters don't build up equity, and they don't benefit from higher housing prices and various tax incentives, Lea said. However, renters are spared maintenance-related expenses and property taxes. And if renters pay less than they otherwise would pay to buy, that extra money can be saved, invested or spent on other goods.

"If you've got 5 percent down and find something you like, this is a good time, because interest rates are low," Lea said.

Doing the math

The rent/mortgage gap is less than \$100 a month in some markets, according to a study performed by Marcus & Millichap Real Estate Investment Services for the Associated press.

The gap is still large in San Diego County, about \$1,000, according to the Marcus & Millichap survey. But according to a survey by Cassidy Turley BRE Commercial, the gap has nearly vanished. The main difference is that the Cassidy Turley survey assumes that buyers put more money down ---- 20 percent vs. 10 percent.

The Marcus & Millichap analysis of 45 metro areas found the national difference between the monthly mortgage payment on a median-priced home and the median rent is down to \$256. The last time that gap was anywhere near that small was in 1993, when it fell to \$264.

Marcus & Millichap used median prices for the last three months of 2009 and calculated mortgage payments by assuming a 10 percent down payment and a 30-year, fixed-rate loan at 5.07 percent, among other factors. It also assumed borrowers paid for private mortgage insurance and didn't include repair costs and tax benefits.

A dramatic fall

The Cassidy Turley survey shows a dramatic rise and even more dramatic fall in the rent/mortgage gap over the last seven years.

In 2003, San Diego County renters paid an average \$1,123 a month, while the mortgage on the median-priced house was \$1,998. That's a mortgage premium of \$875, or 78 percent, compared to the cost of renting.

In 2006, the average rent had risen to \$1,241, an increase of \$118, or 10.5 percent. The typical new mortgage jumped to \$3,015, an increase of \$1,774, or 89 percent.

But it was a different story in 2010. Since 2006, the average rent had risen to \$1,315, an increase of just \$24, or 1.8 percent. During the same four-year period, the average mortgage payment crashed to \$1,383, a drop of \$1,632, or 54 percent. The mortgage premium had fallen to \$68, or 5.2 percent.

The Cassidy Turley survey was based on a 20 percent down payment. It used the national average of 30-year fixed rate conforming mortgages and median resale prices of single-family homes.

Weighing the options

SDSU's Lea said that even with the lower mortgage costs, people should avoid straining their finances to become homeowners. Buying more than you need can hurt you.

"In the past, people put too much weight on the investment value of a home, and were buying larger homes than they probably could afford, because they thought housing prices just went up forever," Lea said.

"I think we're in a period of time where housing prices are going to be flat at best, likely to go down somewhat later this year," he said. "It's likely going to be a good while before you're going to see substantial appreciation in housing."

And if you're only planning to stay for a couple of years, it probably doesn't make sense to buy, Lea said. If you plan to stay five or more years, buying becomes a more attractive option.

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"Buy it as an consumption good; 'I like this house, I like this location, it's better than what I can do by renting', and if the cost is relatively comparable, then go for it," Lea said.

"Just realize that there is this potential lock-in effect. We see this with all the negative equity people. A lot of those people would like to move, but don't feel they can take the loss to sell their houses."

Call staff writer Bradley J. Fikes at 760-739-6641. Read his blogs at bizblogs.nctimes.com.