

Should you rent or buy?



By Les Christie, staff writer

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NEW YORK (CNNMoney.com) -- Is it better to buy or rent in Omaha, Neb.?

If you guessed buy, you'd be wrong. According to the new Trulia Rent vs. Buy index, it makes more fiscal sense to rent in this farm city due to the huge gap between rental and purchase prices.

Until recently, the perennial real estate question of whether to rent or buy was dead. During the boom years, the question was largely irrelevant as people rushed to pay ever increasing prices for already expensive real estate. But now that national home prices have slid substantially and potential buyers are being more cautious, the debate has been reinvigorated.

Many people hunting for a home these days are considering both alternatives, according to Tara-Nicholle Nelson, a spokeswoman for

Trulia, the real estate website. "We did a survey of site visitors and found that 30% of them were thinking either of buying or renting," she said.

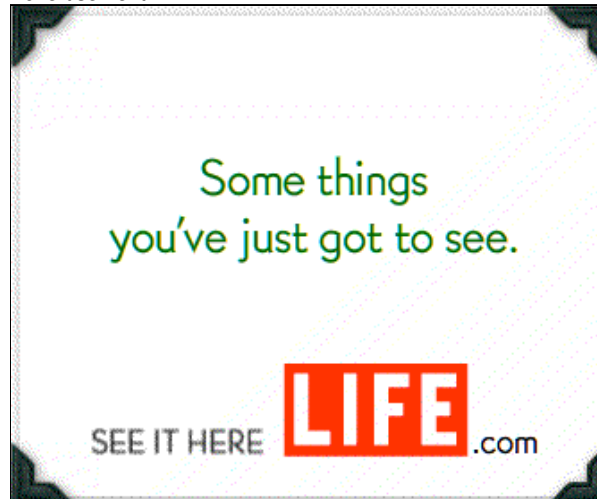
In response, on Thursday the company will launch a Rent vs. Buy index for 50 major cities.

To determine which option is better, Trulia compares the costs of buying a two-bedroom condo with the costs of renting one. Then, Nelson said, the results can be extrapolated to other classes of homes, such as larger single-family houses.

Another factor, of course, is price stability. Unlike home prices, rents tend to rise or fall just a few percentage points each year. Even 2009's record decline in average rents was a paltry 2.9%, according to Reis Inc, which tracks the rental market.

On the other hand, the national median home price jumped 12.2% in 2005 and fell nearly 20% in 2008, according to housing, according to housing groups.

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[Minneapolis](#) was the city on Trulia's index where it makes the most sense to buy. The average listing price for a two-bedroom there was about \$150,000, while the average annual rent for one came to about \$20,400. Buying, therefore, costs less than eight times the annual cost of renting. Economists generally hold that anything below 15 times the annual rent is a buyer-friendly city.

Trulia also signed off on purchasing in [Arlington, Tex.](#), [Miami](#), [Fresno, Calif.](#), and [San Antonio, Tex.](#)

In [Manhattan](#), on the other hand, renting is a much better deal. The price-to-rent ratio of 33 was by far the least favorable for buyers, seven points higher than the runner-up city, [Omaha, Neb.](#)

That's despite very high rents, an average of more than \$42,000 for a two-bedroom apartment. Gotham selling prices are so astronomical -- \$1.38 million for a two-bedroom condo -- that it still makes more sense to rent.

[Seattle](#), [Portland, Ore.](#), and [San Francisco](#) were also much more expensive to buy.

These stats cover the costs of buying vs. renting; they don't take into account future price appreciation or depreciation. If, for example, prices rapidly decline in Minneapolis, the total cost of ownership could exceed rental cost, especially when the transactional costs, such as real estate broker commissions, taxes and mortgage origination costs are factored in.

On the other hand, soaring home prices have made New York a good place to buy in the past, and it's possible, although unlikely,

that it could again.

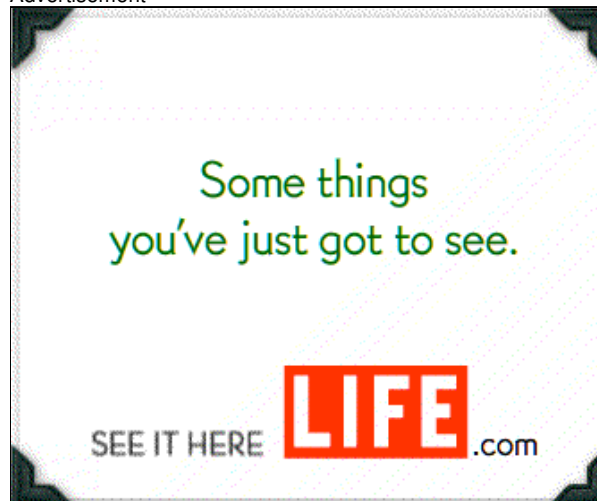
More likely though, is that prices in many cities will remain sluggish for a number of years; home price appreciation should not be a strong consideration when deciding whether to rent or buy.

These analyses are also just a general guideline; individual circumstances matter, too. People in higher tax brackets, for example, may get more bang for their purchase buck because they're able to deduct more interest costs and property taxes.

And, once people purchase, their home-buying costs tend to be fairly stable. Fixed-rate loans don't go up (although taxes and maintenance costs can.) Rents usually do.

There are also many intangible benefits for both buyers and renters, according to Trulia's Nelson. Buyers often feel more invested in their communities, more likely to put down roots, make friends and join local organizations. Home ownership often brings them pride and joy.

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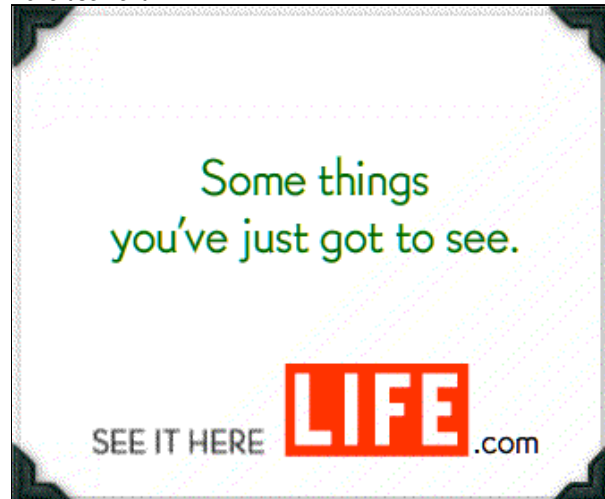
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Renters, on the other hand, may not want the responsibilities of home ownership or being tied down. If another place comes along that suits them better, they can easily move. They're also freer to pursue employment opportunities in other cities without worrying about selling their old homes and buying new ones.

The new index addresses none of those intangibles, but Nelson said it's still a useful tool for consumers: "You have to make the decision on whether you want to buy based on your lifestyle choices more than anything else."



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