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## Better to buy or rent a home now?

Many renters are waiting out the market, but there are other considerations before buying a home.

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Scott Anderson at **Newport Advisory, LLC** in Newport Beach, knows real estate from just about every angle – as a certified financial planner, CPA, IRS-enrolled agent and a licensed real estate broker. He even served as mortgage loan officer in, as he likes to put it, "a previous life."

Regardless of which hat he was wearing, clients often asked, "Should I rent or buy?" The question is even timelier now as home prices drop while rents have been increasing. A recent Moody's Economy.com study of the ratio of the cost of a home versus annual rents suggests the scales may

be tipping in favor of buying over renting in Orange County. Here's Anderson's thinking on the subject:

**Q: With your financial planning hat on, why should renters consider buying?**

**Anderson:** As a financial planner, there never is a question about rent versus buy. The first and most fundamental reason to buy a home is financial – to own an appreciating asset in times of inflation. We live in and will continue to live in inflationary times. The tax law favors buying – there is an active mortgage loan market (which can be good and bad) to assist in the purchase of a home, interest and property taxes are deductible, and the gain on sale is tax free to certain limits.

The only question is what the client can realistically afford and what must be done to put the client in a financial position to buy. This is usually getting the client to focus on paying down consumer and car debt in order to create a financial ability to pay the costs of owning the home within a realistic life style.

**Q: When is renting the better choice?**

**Anderson:** Renting is a better choice if the planning horizon is fairly near term due to job relocation or a significant status change (marriage or divorce). You want to be in the home two to four years in order for the gain

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due to inflation on the purchase price to offset the cost of selling the home and to be able to weather market ups and downs as we are seeing today.

Renting is also a better choice for that subset of people who do not want to feel tied down and who, in fact, move every few years just for the change. I have several tax clients who are that way – but almost all of them own rental property they expect to sell at some point in the future to finance their retirement.

**Q: How do you know when it is a good time to buy a home?**

**Anderson:** Only in hindsight. People can only tell that the market is at a bottom after it has turned up. The time to buy a home is when you can afford to buy a home. Indexes such as rent/buy ratios can be general guidelines about the overall market but the issue of your personal financial resources, the home you are looking to buy and the deal you can negotiate are so specific that ratios are useless. It is like saying you will buy a particular stock based on where the Dow Jones Industrial Average is. The market for homes under \$600,000 in Orange County is getting quite active again but you would not know that from the rent/buy index.

**Q: Should I wait for mortgage rates to drop?**

**Anderson:** At the moment, the Fed is strongly hinting that inflation may be coming back and there may be a need to start raising short term interest rates again. When short term interest rates rise, the trend is for long term interest rates (i.e. mortgage rates) to rise in conjunction. If you can afford the home, go for it. If mortgage rates go down, there may be the opportunity to refinance.

**Q: Any final thoughts?**

**Anderson:** Buying a home is not like buying anything else. You can buy a car with more or less the desired model, color, and accessories. If it is not on the dealer's lot, they can try to find it for you. You can wait to see if the price will go down or you can pay a higher price early in the model year or buy it later just before the new models come out. You can search online in state and out of state. There is a large supply and one car is fairly easy to substitute for another car.

Homes are not like that. An individual can look at three homes all at the same price and decide that none of the homes will work due to their location, interior layout, age, state of repair or other attributes. So waiting for the right "price" is not feasible because other people are also looking at that home and once that home is gone, it is gone – there is no easy substitute. As a consequence, there is no magic formula of when to buy. The only issue the financial planner can help with is

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helping the buyer know what they can afford.  
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