Equine real estate 14

Rent or buy?

Experts discuss pros and cons

By MEG BRAZILL

Whether to rent or buy a home is a perennial question and can be a real conundrum in times of economic uncertainty. The question arises over and over again for a very good reason: Shelter needs change as people's lifestyles change, and as their families and incomes grow and shrink over the course of a lifetime. Whether someone is the fifth generation living in the family homestead or has moved 10 times in 20 years, the question will arise: Should I rent or should I buy? Access to jobs or health-care facilities can be important factors in deciding where to live. When the location is determined, the equation narrows to the availability of housing – and affordability of that housing vs. income.

In 2015, as signs point to continued improvement in the economy, the answer may get easier. Bloomberg News on March 31 reported an increase in consumer confidence to the second-highest level since August 2007. It's a good indication that Americans are growing more optimistic about employment opportunities, and that may result in more consumer spending. National statistics don't tell the story of individual states, however, and each state has its unique challenges. Vermont, with its small population and rural character, is no exception.

It's been a buyer's market for a number of years, but Isaac Chavez, chief executive officer of the Vermont Association of Realtors, said, "It's starting to change toward a seller's market again because the inventory is starting to decrease. A lot of the inventory that has been around for a few years has been selling."

According to Chavez, it's cheaper to buy a home these days, if you can. "Mortgage payments are lower than rents," he said. "With interest rates historically low going on five years now, we don't really see this changing." And he noted that he doesn't see interest rates rising this calendar year, despite predictions. Tight rental markets, especially in high-population areas like Chittenden County, may drive renters to consider buying a home. Factor in Vermont property taxes, however, and that could make mortgage payments higher than the cost of renting.

The cost of purchasing a home and whether or not one can afford to purchase are just two considerations among many in choosing home ownership over renting. The ability and desire to maintain a home, the length of time one expects to stay in it, and a steady income are a few key factors in making that decision. Chavez said that a study conducted last year by the National Association of Realtors reported that about 80 percent of all renters state that they still aspire to own a home in the future. Home purchasing is one of the biggest decisions a consumer can make, so it's important to gather facts.

The first step is knowing how much is too much to pay for housing. The old rule of thumb was that no more than one week's pay should go toward your housing cost, which meant 25 percent of your income. That figure was actually increased to 30 percent by Congress under Ronald Reagan, to reduce government spending, and is now considered an industry-wide standard. When it comes to getting a mortgage that can work for the consumer, but the savvy individual will put together a solid budget that includes all their expenses and allows for savings and unanticipated costs of home ownership.

PROVIDED

Shown here is Leslie Black-Plumeau, research and communications coordinator of the Vermont Housing Finance Agency.

Young adults have historically driven the pace of the U.S. home purchase market. The Millenial Generation has been making headlines, as last year they made up 32 percent of the U.S. housing market, according to the National Association of Realtors. Leslie Black-Plumeau, research and communications coordinator for the Vermont Housing Finance Agency (VHFA), cited statistics (National Association of Home Builders study of 2011 Census Data) which showed that 41 percent of all buyers were under the age of 35. Black-Plumeau said that young-adult home ownership rates can fall precipitously, which they did following the collapse of the housing market in 2005. That can spell trouble for businesses that rely on young people entering the job market to become long-term employees, as well as for businesses that rely on them for their customer base.

According to Black-Plumeau, down payment, closing costs and student loan balances are likely to be big barriers to home buying these days, especially for young Vermonters. In 2013 closing costs increased by 5.7 percent, and now are close to $20,000 for the typical Vermont buyer who is making a 5-percent down payment.

Harvard's Joint Center for Housing Studies examined factors that may be delaying home ownership among young people and found that economic/monetary reasons have had a much greater impact than demographic, lifestyle

Rent or buy: 15

Vermont's Leading
Full-Service Commercial Real Estate Firm

POMERLEAU
REAL ESTATE

Commercial Brokerage | Development | Property Management

www.vermontrealestate.com • 802-863-8210

Rent or buy

Continued from 13

factors, such as delayed childbearing and marriage. Down payment and closing costs, and student loan debt were reported as some of the economic/monetary reasons. Black-Plumeau also found that 63 percent of Vermont grads have student loan debt and student loan balances average $28,299 in Vermont.

Those numbers aren't encouraging, but there are nonprofit agencies, banks and lenders who can provide help and a little perspective. Louis F. Maguire, assistant vice president and store manager of TD Bank at 58 Bonnet St. in Manchester Center, Vermont, has long experience in mortgage lending. He said that the rent-versus-own question is "One of the things we work with and look to have, at least, a discussion [about] with our customers." TD Bank has a number of useful calculators on its website that can help people figure out how much home they can afford, how much the monthly mortgage might be, and even a calculator for "rent vs. buy." Maguire said factors include what your long-term plan looks like, and what home-ownership expenses look like. "It also gives people an opportunity to say: Maybe it isn't the best time. If you're renting a place now and you're not going to be in this area for a few years, and the rent isn't that high, you may be better off saving money and wait till you're somewhere for a longer period of time."

Maguire said with these calculators you can vary things like the time line, the interest rates and down payment. "What we try to do for the most part [at TD Bank] is to speak to the customer about what fits each customer. There's no one-size-fits-all here."

Maguire described a TD Bank program that could be useful especially to young people looking to buy a home. "We have a program called our Right Step program – a home buyer mortgage product for folks that generally are new to the market, with only 3 percent down that doesn't require mortgage insurance." Maguire said it's similar to an FHA program and requires a 660 credit score. "It's open to anyone who wants to look into purchasing with reasonable debt-to-income. "

David S. Adams, chief of program operations at VHFA said, "There's quite a gap in Vermont between the median household income relative to the median cost of a new home." At Housingdata.org consumers can find the statewide median house costs and what kind of income a buyer would have to have to afford it, as well as the cash costs needed at closing. It shows that the median price of a home in Vermont in 2014 was $195,000. The annual income required to support the mortgage, insurance and taxes was $57,380 as well as $15,939 cash at closing.

Adams said it's difficult to pinpoint when it's the right time to move from renting to home ownership. "It's when that household is really ready to take on the responsibilities that come with home ownership." That means ability to make a down payment, having good credit, a stable income, and positive debt-to-income ratios. "If you're buying an energy-efficient home, that may help," Adams said. "A very high percentage of households are paying more than half of their income in rent." That situation is called rent-burdened. It's hard for people who are rent-burdened to fix up their credit, to save for a down payment, and still cover things like health insurance and transportation.

Erhard Mahnke, coordinator of the Vermont Affordable Housing Coalition (VAHC) explained. "A household is cost burdened if they're paying more than 30 percent of their income for their shelter (for renters that's rent and utilities, for owners that's mortgage, insurance and taxes). "In Vermont 47.5 percent of our renters are paying more than 30 percent of their household income, and 22.4 percent are severely cost-burdened, which means paying more than 50 percent." Home ownership paints a similar picture, where "32.9 percent of Vermont owner households are cost-burdened, and 12 percent are severely cost-burdened," Mahnke said.

Adams added that, "The lack of affordable housing in Vermont is something you hear business leaders complain about almost across the board. If they can't find folks locally, even though we have a good quality of life, workers don't want to relocate here because it's expensive. And it's pretty widely known that comparable jobs don't pay as well here as in other parts of the country. We hear this from business leaders all the time." Adams points out that housing affordability is a relative concept. If someone is being offered a $70,000 job, that's a different aspect of housing. The Vermont Department of Housing and Community Development (DHCD) recognizes that "Safe, adequate, physically accessible and affordable housing is a basic need of all Vermonters and it is a cornerstone of a viable economy and healthy communities." ❖