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## Home Purchase Versus Renting

Conventional wisdom has long suggested that home ownership is an effective way to build household wealth. Home ownership and classy cars are considered to be a key part of the American Dream. I think the thing we all need to remember is the American Dream is not guaranteed. The common figure some Realtors quote is a mortgage payment of thirty-eight percent of take home pay is affordable. In my opinion a twenty-five percent factor would be much wiser. This would allow for career adjustments, times of modest pay increases, healthcare, an all other costs necessary to keep a family going.

The loss of a house to foreclosure recently experienced by millions of U.S. households, along with declines in wealth experienced by virtually all U.S. homeowners, would seem to make a reconsideration of home ownership inevitable. While home ownership often builds more household wealth than renting and investing the saved cash flow, it also often does not. More specifically, for most ten-year occupancies beginning during the 1970s and 1990s, home ownership indeed built more wealth. In contrast, for most occupancies beginning during the 1980s, renting and investing built more wealth. Renting and investing is also likely to build more wealth than home ownership for many of the occupancies that started in 2000 through 2009.

I think it is naive to assume that all renters fared better in the 1980's and during recent times. Either home ownership or renting and investing can be reasonable strategies for building household wealth. Without the stewardship of investment and savings, renters would certainly not be building family wealth. House payments and land payments certainly are not fun, but they force us to be savers.

The corrections in the 1980's and in recent times and the impact on families are not all the fault of some richy, rich or some government agency. People taking out loans with payments based only on interest, or a one-hundred percent loan based on inflated appraisals have to bear some of the responsibility for their own greed. In Nebraska, I don't believe we have seen the house values crash as much as we have seen the home sale market slow down. This has a definite impact on short tenure home owners looking to improve careers or amass wealth by trading up through the real estate market. The tenure in homes for sales and moves to be profitable has increased to seven or more years in most situations. Young people beginning careers in our mobile society may be wiser to be renters and savers.

Jordan Rappaport, Senior Economist at the Kansas City Federal Reserve says, “*Conventional wisdom that home ownership is usually the better strategy is probably too strong. For many households in many years, renting and investing the saved cash flow has built more wealth than home ownership. On the other hand, about half of the time, home ownership has built more wealth than renting. Moreover, it may be easier to purchase than to rent a house that closely matches a household's unique tastes. Put differently, identical houses are typically not available both to rent and to purchase.*” The main point is we should all consider real afford ability, when purchasing homes and other significant outlays, like cars, campers, boats and vacations.

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