

“Everybody’s advising them... ‘Don’t buy. Prices are coming down.’” — MORTGAGE BROKER BOB MOULTON, ON FIRST-TIME HOMEBUYERS

The rise of the renter

First-time homebuyers face dilemma

REUTERS
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For decades, buying a home was a key step on the path to financial security for the American middle class.

Homeowners could count on a fixed mortgage payment rather than rising rent, take advantage of tax breaks and build equity as their houses increased in value over time.

But with home prices falling and families losing their homes to foreclosure, some people who under other circumstances would be looking to buy their first home now see greater security in renting.

One such person is Lisa Chesnut, who lives in Tucson, Ariz., and works as an information systems co-ordinator. With a good job and two young sons, 29-year-old Chesnut and her husband, Bryan, look like classic first-time buyers.

They had considered it, until the market started to slide a year ago.

“At first we thought, prices

are falling, that’s good,” she said in a phone interview.

“Then we started reading about the foreclosures and the ARM (adjustable-rate mortgage) rates and people losing their homes. We thought, what if something happened where we could lose our house?”

Her big fear is falling behind on a mortgage. Having read about people who face higher payments on their adjustable-rate mortgages, she realizes that being approved for a loan doesn’t guarantee it will be affordable.

One sign that more Americans are choosing to remain in rental apartments while they wait out the slump comes from **Equity Residential**, one of the largest U.S. apartment owners. Fewer people have been moving out of its apartments — last year 63.3 per cent of its units changed hands, down from 64.9 per cent in 2006.

“Turnover is slowing and the rate of moving out for home purchase we also saw slow throughout 2007,” said Fred Tuomi, president of property management at the Chicago-based company, who oversees about 150,000 U.S. apartments.

And population projections by the National Association of Realtors suggest hundreds of

thousands of young Americans are sitting out the housing market entirely, neither buying nor renting.

“There’s probably 700,000, maybe 800,000 people out there that are not getting into the market either as a renter or as a homebuyer,” said Walter Molony, spokesman for the NAR. “Where are these folks? They’re out there, they’ve got jobs. Some of them are moving back with their parents; (some) never left the house; they’re doubling up with roommates.”

There’s no scarcity of data to worry potential homebuyers. The average price of an existing single-family home in U.S. metropolitan areas fell six per cent in the fourth quarter, while foreclosure rates in the top 100 metropolitan areas soared 78 per cent last year.

“They’re the most nervous people I’ve ever met in my life,” said Bob Moulton, president of **Americana Mortgage Group**, referring to the potential first-time buyers he speaks with.

“They’ve seen what can go wrong in the mortgage market,” said Moulton, whose company brokers \$300 million of mortgages a year, mainly in suburban New York. “Everybody’s advising them, from the mother, to the father, to the uncle, their co-

workers, telling them, ‘Don’t buy. Prices are coming down.’”

Indeed, home ownership rates in the United States have fallen to 67.8 per cent of households at the end of last year from 69.2 per cent in 2004. That is below a 69.8 per cent rate in Britain, but still much higher than European countries such as France and Germany.

For young people who are unsure whether to buy instead of renting, experts say the key thing to consider is how long one plans to live in a house.

During the boom years, from the late ’90s through the first half of this decade, rapidly rising house prices meant that in many parts of the United States a buyer could turn an easy profit after owning a house for just a year or two.

Today’s young buyers should plan to stay in their homes longer than that, said Jim Gaines, a research economist at the Real Estate Center of Texas A&M University, in College Station.

Even his son, who recently married, has come to him with fears about buying real estate, Gaines said.

“I told my son this, ‘Look, if you buy a home today, you better be prepared to stay in it for a minimum of five years.’”