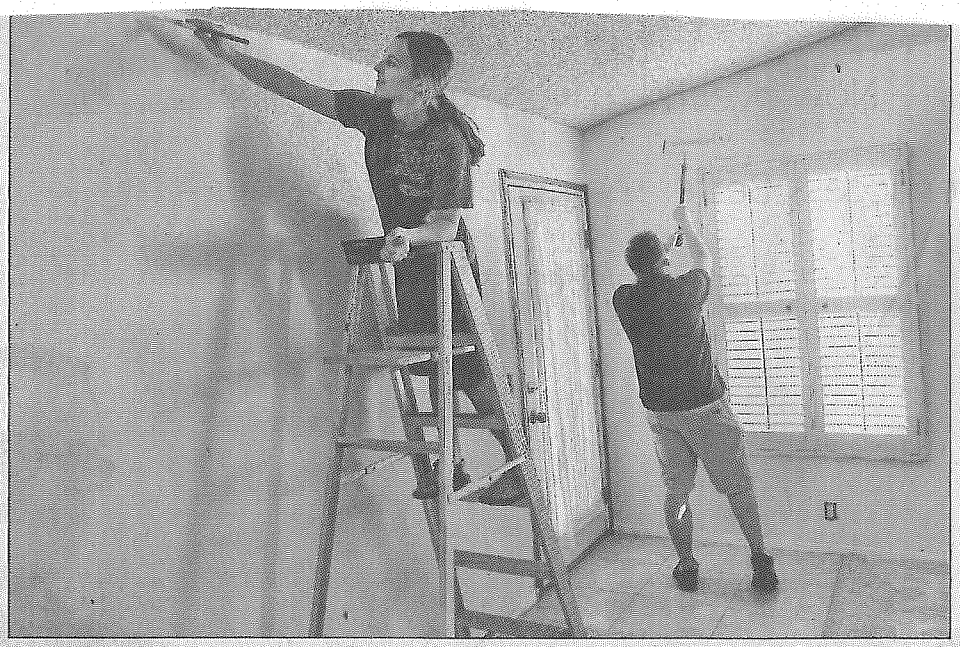
Renters convert to homeownership



MATT YORK / The Associated Press

Andrea and Aaron Carter paint their new home in Glendale, Ariz. It is the Carters' first purchased home.

Downturn makes mortgages attractive

By Alex Veiga
THE ASSOCIATED PRESS

For Americans debating whether to buy or rent their homes, the scales are tipping toward ownership. Because of the slide in home prices, low interest rates and tax incentives, renters are realizing they could handle a mortgage for just a little more money.

An Associated Press analysis of 45 metro areas finds the gap between the monthly mortgage payment on a median-priced home and the median rent has shrunk from $777 a month to just $221 in the past three years.

It could mean a quicker end to the housing-market doldrums, as renters buy up unsold homes languishing on the market.

In some metro areas, including Cleveland, Atlanta, Indianapolis and St. Louis, the gap was less than $100 a month. And home prices are expected to fall faster than rents this year, which means the gap should get even smaller.

In once-inflated markets like Phoenix, Las Vegas and inland swaths of California and Florida, where prices have tumbled more than 40 percent, sales are rising because first-time homebuyers are snapping up bargain-priced homes.

They are getting help from a federal tax credit that covers 10 percent of the home price or up to $8,000 for first-time buyers who earn up to $75,000 a year, or $150,000 for a couple. The credit expires in November.

Cheap foreclosures in some of those markets are now drawing multiple bids. As supply and demand even out, home prices will eventually begin to rise. But for now buyers are having little trouble finding bargains.

The study, conducted for the AP by Marcus & Millichap Real Estate Investment Services, used prices for the first three months of this year.

It calculated mortgage payments by assuming a 10 percent down payment, a 30-year fixed loan at 5.15 percent, and taxes and insurance that added up to 1.5 percent of the purchase price. It assumed borrowers used private mortgage insurance.

While the analysis found the gap between what it costs to own and rent is shrinking, it's still too wide for millions who live paycheck to paycheck.

Renters with jobs in the education, retail and transportation industries don't earn enough to rent the average two-bedroom apartment in many of these major cities, let alone buy, according to a recent study of 200 metro areas by the Center for Housing Policy.

Renters who want to become homeowners also face the obstacles of scraping together a down payment and qualifying for the loan.