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The Cost of Renting vs Buying in Today's Market

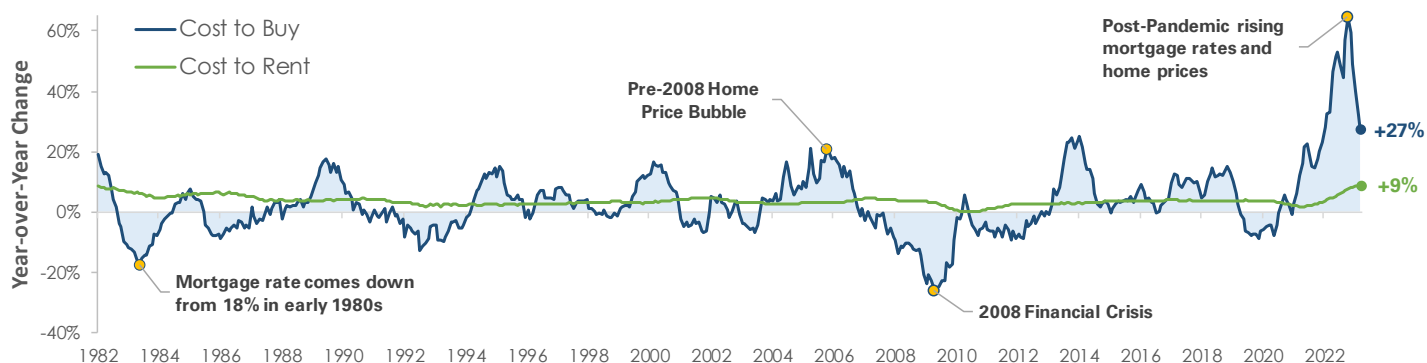
Rent vs buy – it's a big question with big financial implications. Do you make a down payment, take out a mortgage, and build equity? Or do you rent, give yourself more financial flexibility, but miss out on the opportunity to build equity? This month's chart, which tracks year-over-year growth of monthly rent and mortgage payments since the early 1980s, compares the cost of renting vs buying a home. Looking at the chart, one trend is immediately clear – the cost of renting is less volatile than buying.

Why are mortgage payments more volatile? Purchasing a home is naturally more volatile due to fluctuating home prices and mortgage rates, which directly impact both the loan size and interest charged. For example, monthly mortgage payments grew rapidly in 2005 and 2006 with home price inflation. After the housing bubble burst during the 2008 financial crisis, mortgage payments declined -25% in 2009 as home prices and mortgage rates fell, even as rents continued to grow.

The past few years highlighted the volatility of mortgage payments as homebuyers felt the strain of rising home prices and mortgage rates. S&P's 20-City Composite Index rose each month from June 2020 through June 2022, with home price growth peaking at +21.2% year-over-year in April 2022. In parallel, the average 30-year fixed rate mortgage climbed from less than 3% in early 2021 to 7% today. While rent payments are rising at the fastest pace in four decades, mortgage payments are rising even faster due to the combination of increasing home prices and mortgage rates.

How do you navigate the current housing market? This is a unique housing market because of the volatility in home prices, mortgage payments, and rent payments. Data shows home prices declined each month from July 2022 through February 2023, but the challenge is prices are still elevated, banks are tightening lending standards, and mortgage rates sit near 7%. Plus, homeowners who refinanced in the past few years will give up their low rate when they sell. Since buying a home is one of the biggest purchases most individuals will make, we recommend taking the time to make an informed decision. Our team stands ready to help when it comes to thinking about your investment portfolio and overall financial plan.

FIGURE 1 – Year-Over-Year Change in Monthly Mortgage & Rent Payments



Source: MarketDesk, NAR, Department of Labor. Data from January 1982 to March 2023. Cost to Buy: Year-over-year change in the Housing Affordability Index Monthly Mortgage Payment, including principal and interest. Cost to Rent: Year-over-year change in Rent of Primary Residence component of Consumer Price Index.

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