

Real Estate: Undergraduates' Characterization of Renting Versus Buying

Christopher Jacobsen*, Joshua Monteiro

Department of Accounting and Finance, Charlton College of Business, University of Massachusetts Dartmouth, Massachusetts, USA

Abstract

With all the decisions we make as we progress through life, finding a place to live is one of the biggest ones. There are many different factors that influence a person's decision to rent or buy. There are both societal and economic components as to which one might be better suited for each person's life. The primary focus of this research is to identify and analyze the factors that have the most influence on a person's housing decision. Through a survey, perceptions about real estate will be explored, along with what personal characteristics contribute to housing preferences, and identify other factors that may impact housing choices. Findings demonstrate that economic factors are most influential, while financial literacy, social and cultural factors seem to have little influence on housing decisions.

Introduction

Researchers have always been interested in the reasoning behind buying a home versus renting an apartment. The goal has always been to understand the rationale behind the decision. Recent news suggests that millennials are less likely to own a home despite having a higher number of college graduates when compared to Gen Xers and Baby Boomers. This is while the cost of renting versus buying is about the same. ^[1] Overall, it is understood that depending upon certain conditions, either alternative may be economically advantageous, so why are millennials resistant to buying homes. ^[2] Overall, everyone can come to a consensus that there are characteristics of buying or renting that are better situated for one over the other. However, there is also no definite answer. Unless someone can physically assess the situation of renting and buying in perfectly matching circumstances,

it would be impossible. ^[3]

Researchers have investigated many factors to determine which decision would be more suitable. These factors can be analyzed through a given set of categories. With respect to financial/economic implications, the four most prominent variables include: overall cash flows, the difference in monthly house and apartment costs, a sensitivity analysis of which has the greatest effect on the breakeven point, and the effect of using a home as a business. The variable researchers argue is the most important is the "difference between monthly mortgage payment and rent". ^[2] Yet, as we are seeing little variance between these two expenses, it begs the question, what other characteristics might be driving current trends?

The primary focus of these observations is to demonstrate that depending on a person's position, one decision will have more advantages over the other. Nevertheless, most research has agreed that the answer to this question should be solely based on figuring out the most cost-effective way to keep a roof over your head. Therefore, key non-financial aspects of the two have mainly been disregarded. Yet, we see glaring differences as young people move into the housing and rental markets. While there is extensive research on the components of renting versus buying, there is limited findings on people's characteristics and their connection to what decision they make. This is where there is a gap in the research. Are there key personality traits, characteristics, or personal factors that explain why people buy or rent?

On this note, I will collect data to further explore if undergrad-

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***Corresponding author:** Professor Christopher Jacobsen, Department of Accounting and Finance, Charlton College of Business, University of Massachusetts Dartmouth, Massachusetts, USA. Tel: 508-999-9190; E-mail: u_cjacobsen@umassd.edu.

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uates (close to making their own decision or having already made their decision) acknowledge and/or are aware of the financial elements that should guide you towards making a better decision on buying versus renting. Then I will attempt to further understand what personal characteristics lead someone to choose one over the other. I begin with an overview of the home ownership vs renting literature and research questions. This is followed by the methodology and results. Lastly, limitations and conclusions are discussed. It is harder than it has ever been for first-time buyers so it's worth investing some time researching and understanding how the process works. ^[4] The first step is to understand the arguments in favor of buying and renting. ^[5]

Literature Review

Home ownership

For the individuals benefit, it is important to understand that “the benefits of housing ownership can be twofold: providing shelter for the entire household, and as an investment for the owner-occupier”. ^[6] Other main advantages of owning a home involve store of value and possible equity growth, the opportunity to use your home to generate income (for example having a business), tax deductions, and more predictable expenses. ^[7] For most people, purchasing and financing a home will be their single largest investment. Researchers have emphasized that there is a “growing recognition of home equity as a singularly important consumer resource”. ^[8] Equity as a percent of tangible assets has continued to rise.

While having one large investment can be a benefit, one of the biggest drawbacks of buying a home is that the occupancy costs are a large item in family budgets. In further detail, the cost of buying a home is typically the largest investment a family will ever make. “The fact is that buying a home will cost more over the short run, whereas renting will cost more over the long-run. ^[3] Of course, it is important to understand that the question in prices between renting and owning is contingent upon the trend in prices during that period. Buying a home was more advantageous with lower interest rates three years ago. ^[1] Another issue is timing. If a homeowner does not intend to remain in the same place for more than 5 years, they may not own a home long enough to see a gain on their investment. If a substantial gain occurs, owner-occupancy is general cheaper than renting. If not, then it is vice versa.

One of the most widespread misconceptions is that it is cheaper to rent than own. This is because the spare money you have in renting can be used for things such as investments. Therefore, with the smaller short-term costs involved with renting, it is important to factor in depreciation and interest values. ^[3] Buying a home incurs maintenance costs where renting rarely does. Housing prices can also impact the decision to buy a home. When buying a home potential buyer need to save up for a down payment. Even a relatively small increase to housing prices can have a negative impact on savings for a down payment. ^[9,10] In addition, conventional wisdom that ownership is risky ignores rental risk. So, while homeownership introduces asset price risk, by purchasing a home instead of renting you are also hedging against fluctuations in housing costs. ^[11]

Renting

The main advantages of renting a property involve: limited financial obligations, more liquidity, and more mobility. ^[12] Studies show that “the rise in number of people with mortgage arrears and the number of people who have had their homes possessed will have an impact on all homeowners and not just those who are in debt”. ^[13] Just the thought of debt itself can have an impact on people. If there are debt and people who are failing to reimburse their loaners; individuals will always feel a little insecure about homeownership, and therefore be more comfortable renting. Family status must have reached a certain stability, and prospects of a stable income must be good before the move from renting to owning is considered. ^[14]

Despite the economic reasons to buy or rent, there are also personal or social reasons for doing so. Housing choice is impacted by more than just financial influences, where someone is in their life cycle as well as the generation, they were born into both play a role in making their decision to buy or rent. ^[15,16,17] Continuing along this thought process, having children and school districts has been shown to play a role in the decision to buy or rent a home. ^[18] Another study found that, in the United States, it has been accepted that homeownership is part of the American dream. The thought process is that homeownership is a viable way towards wealth, and it helps foster preferable societal outcomes. ^[19] This would encourage American's to view home ownership as the superior choice.

While societal impact is important, and we know housing debt can impact renting, student debt does not necessarily have the same

effect. Society has been led to believe that student debt urges students to stay away from major purchases due to the fear of more debt. However, there is little evidence that suggests that student loan debt is a major cause of declining homeownership among young adults. ^[20] These social and personal characteristics need further exploration. The primary focus in of my research is to show certain types of people are inclined or motivated to move towards one decision over the other. These questions will guide the research:

1. Do undergraduate students prefer renting vs. buying?
2. Are preferences driven by economic motives?
3. How big of an impact does financial (real estate) literacy have on this decision (if any)?
4. What personal characteristics lead to preferring one option over the other?
5. Are there any societal factors that impact the choice for renting vs. buying?

Methodology

A survey was sent to all undergraduate students at a large public university in the US through an email containing a link to Qualtrics. Participants who completed the survey were entered a raffle for an Amazon gift card. The survey begins by asking about plans for buying vs renting. Next, financial reasons for making this choice are explored, including questions about debt, down payments, timing, and overall costs. Following the financial questions, the survey moves to personal characteristics, investigating if personal history, social influence or other factors are influencing this decision. Demographics were gathered in order to evaluate potential differences in gender, income, major, and age.

Results

The survey received 480 responses, and 49 were removed for incomplete responses. The current sample size is 431 participants.

Research question 1: Do undergraduate students prefer renting vs. buying? Based on the results of the survey, 35% of participants feel that buying a house is a better financial decision than renting an apartment (7%). Fifty-five percent of the participants felt the decision would be based on the circumstances. The remaining 3% chose not to respond to this question.

Research question 2: Are preferences driven by economic motives? When asked what factors were most influential in deciding to rent or buy, economic factors appeared to be the most influential. Ninety-one percent of participants thought their income level was important, 75% thought housing prices were important, 69% thought job stability was important, 68% thought savings was important, and 57% thought current debt was important.

Research question 3: How big of an impact does financial (real estate) literacy have on this decision (if any)? Only 29% of participants said they would take a financial literacy course in order to learn about real estate matters. Participants said they would be more likely to use Family and Friends (82%), a real estate professional (69%) or the internet (55%) to help decide related to real estate.

Research question 4: What personal characteristics lead to preferring one option over the other? Based on the results of the survey, both age and grade impacted preferences for buying vs. renting. Fifty percent of seniors and 35% of juniors said buying a house is a better financial choice, whereas only 22% of freshmen said buying a house is a better financial decision. 44% of participants who were 21 or older said buying a house is a better financial decision, whereas only 29% of participants less than 21 years old said buying a house is a better financial decision. In addition to age and grade, the college of the students' discipline appeared to played role. Forty-two percent of participants from the college of nursing and college of business said buying a house is a better financial decision. Thirty-one percent of participants from the college of arts and science, college of engineering, college of visual and performing arts and school of marine science and technology said buying a house is a better financial decision.

Research question 5: Are there any societal factors that impact the choice for renting vs. buying? While relocation plans, family status and flexibility were the most important social factors, they ranked lower than all economic factors. Society expectations (0%), roommates (28%), cultural reasons (3%), flexibility (35%), family status (38%), and relocation plans (45%) were all considered less important factors than economic factors.

Limitations

As the results were insightful, there are some areas in which this research can be expanded. The first involves the population sampled. In the future, including more universities could help provide better statistics and a broader range of data. Ideally universities from different geographical locations could be sampled.

Another related aspect is the type of people being surveyed. We could survey graduate students, older millennials, or even high school students. Comparing the two or three different results could illustrate any variations between these groups. Expanding the population by adding more universities as well as surveying a broader range of students (high school to graduate level) would allow the researchers to further explore how these characters impact housing decision.

Conclusion

The results demonstrate that most respondents believe the best decision corresponds with the current situation. With economic factors having the most influence, factors such as income, housing prices, and debt have the most impact. However financial literacy didn't appear to be of much importance. This means that the participants will most likely only be affected by physical costs.

With respect to personal characteristics, renting was the more suitable option for younger participants. However, with the increase in age and grade level, the percentages shifted towards buying. Therefore, it would appear as though there is a positive correlation between age and the preference to buy house. This would state that a young population would associate more with renting and an older population would associate more with buying. This aligns with the economic factors as well. In general, as students get older, they are more likely to have access to more stable and higher paying jobs.

Social factors including societal expectations and family status were not shown to be as impactful as economics factors. This is an interesting avenue for future research, in order to see why personal factors are not viewed as important. In addition, the findings in the study show that the participants surveyed overall showed a preference to buying vs. renting which goes against some of the literature about this generation of students.

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