

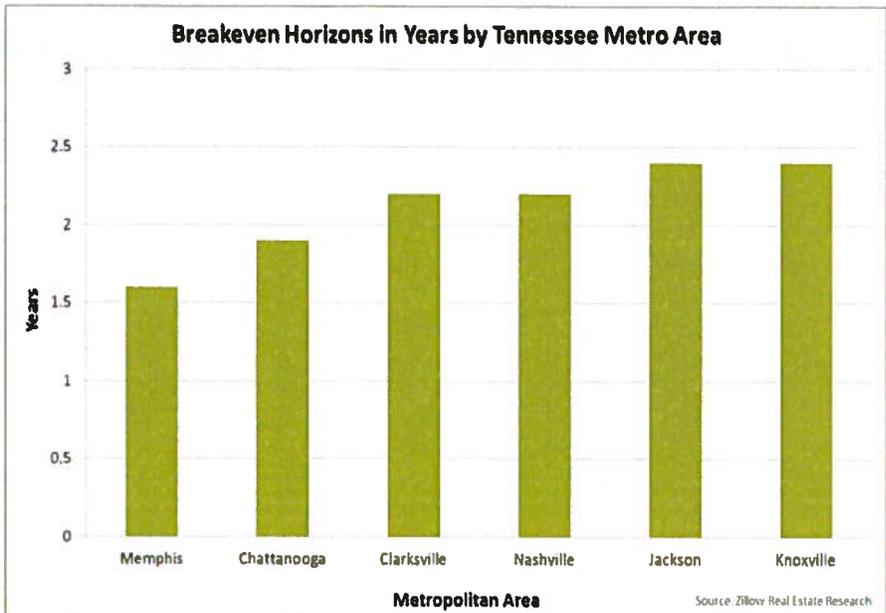
To Buy or Not To Buy

Zillow Estimates Ownership Breakeven Horizons

By Shara D. Taylor, Research Analyst

The process of deciding whether or not to purchase a home is not a simple one. While few would dispute the long-term benefits of ownership, would-be buyers often find themselves inundated with rent versus buy data. Real estate website Zillow released a study earlier this year that aims to demystify the costs associated with both options. By determining the breakeven horizons for purchasing a home in 224 metropolitan areas, Zillow has created an easy-to-compare guide for those who want to understand the lasting impact of their decision. The breakeven horizon indicates the time at which buying becomes financially equivalent to renting. For example, in the Jackson, TN metropolitan area, owners and renters can expect to spend the same amount of money on housing costs in 2.4 years (see graph). Beyond this mark, ownership becomes the more prudent investment.

Unlike other analyses, Zillow computes its price-to-rent ratio by taking into account the estimated market value of all homes and the estimated rental value of all homes. Additionally, Zillow assumes a 20 percent down payment on a 30-year fixed mortgage with a 3.56 percent rate, which may be unattainable for many people in the current housing market.¹



Among Tennessee's four largest metro areas, the breakeven horizons are as follows: Memphis (1.6 years), Nashville (2.2 years), Knoxville (2.4 years), and Chattanooga (1.9 years). However, those horizons vary widely among individual cities. For instance, within the Nashville metro area, a home purchased in Belle Meade would take 10.7 years to break even, while a home bought in Westmoreland would take only 1.4 years to do so. In metro Memphis, the margin is narrower with 2.5 years in Germantown and 1.3 years in the city of Memphis.

Compared to other southeastern states, Tennessee offers lower breakeven horizons for buyers. In metro Atlanta, for example, a mortgage would break even in 2.5

years, and in metro Charlotte (NC), it would take 2.7 years.

While the decision to buy a house is ultimately an individual one, Zillow provides a useful measurement tool for those who may become overwhelmed by the numbers. Nonetheless, it must be carefully considered among all the factors that can influence a person's readiness for the responsibility of homeownership.

THDA supports pre-purchase homebuyer education through a network of counselors. See the article on page 8.

¹ For Zillow's detailed methodology, visit <http://zillow.mediaroom.com/file.php/1457/Breakeven+Horizon+Methodology+August+2012.pdf>