

To Buy or Rent in an Inflationary Market? That Is the Question

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Moss & Barnett Advocate (Winter 2023 edition)
03.21.2023

For many, the decision to buy or rent can be challenging in ordinary times, let alone in the current inflationary market. Potential buyers are now faced with rising real estate prices, interest rate hikes, and increased costs of lending. These economic factors complicate the age-old “buy versus rent” analysis.

Recent Trends

As of December 2022, existing home sales dropped for the ninth straight month. For the year 2023, Fannie Mae predicts new home sales to fall 5.4 percent and existing home sales to fall 19.2 percent.

In the commercial market, transaction volume in the third quarter of 2022 was down 21 percent as compared to the same period for 2021. However, according to a recent JP Morgan survey, approximately 65 percent of real estate lenders are optimistic about the real estate industry’s performance in 2023.

Keeping Perspective

Although the U.S. has seen record inflation and interest rate hikes, historical perspective is important. As of February 2023, the average 30-year fixed rate mortgage was hovering around 6 percent. Comparatively, between 1971 and January 2023, 30-year fixed rate mortgages have averaged 7.75 percent. Thus, while current mortgage rates are above what has come to be expected over the past decade, the U.S. is still notably below historical averages.

Renting Versus Buying

- **Personal finances.** Deciding to rent or buy largely depends on an individual’s specific financial situation. It might make sense to wait on purchasing a home if there is insufficient money saved for a down payment or the estimated mortgage payment exceeds a reasonable budget. Some experts recommend that mortgage expenses not exceed 25 percent of a household’s net monthly income.
- **Short-term versus long-term benefits.** Renting can provide a perfect short-term, flexible solution for someone starting a new business, or experiencing a temporary job relocation, who does not want all of the responsibility and maintenance associated with owning a property. However, buying is generally the better long-term investment given the autonomy and tax



advantages associated with property ownership and the potential to increase wealth if the property appreciates in value.

- **Rent increases versus mortgage rate hikes.** While mortgage rates have increased, buyers can decide to refinance for a lower monthly payment if rates decrease in the future. Renters do not have the same option. In fact, according to the U.S. Bureau of Labor Statistics, rental prices sharply increased by 8.3 percent in 2022.

Conclusion

Renting has its benefits in some circumstances, but buying real estate is generally the better commitment, even in an inflationary market. Purchasing typically provides greater stability and more predictable expenses. As author Mark Twain famously said, "buy land, they're not making it anymore."

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Practice Areas

Real Estate

