

## **Renting Vs. Owning In Houston** by Wojciech Kic

There is a certain amount of perplexity in Houston's real estate market. The Houston real estate market is unlike any real estate market in the world. The real estate here is abundant. There are no real estate shortages in any price category or category type. Anybody who is employed for at least minimum wage can afford to own real estate. For example, there are still condominiums and townhouses with, say, two bedrooms and two full baths, appliances, central a/c and heat, carpet, fireplace and hot water selling for about \$25,000. For those with higher incomes, there are plenty of choices for downtown two bedroom lofts selling for \$250,000. There are also houses and high rise condominiums selling for more than a million. For those wishing not to own, many of the same properties are available for lease. These opportunities are not unique, and they exist in many different parts of town.

These opportunities exist mainly because the local real estate market is very much free of any interference that would limit its expansion. There are no zoning laws that prevent owners from building homes exactly where and when needed. There is a building permitting process that is fast and efficient. There is also a property tax, whose most positive impact, more important than funding of local public projects and services, is continuous utilization and consistently highest and best use of all real estate lots in the Houston area.

Yet, with all the real estate abundance and affordability, the distribution of tenants and property owners in Houston is approximately 50/50. In an abundant and affordable real estate market, when compared to other markets, the question that immediately suggests itself is: Why do we have so many tenants in all different price levels when it is possible and better to be an owner?

It appears that being an owner and a tenant fulfills different rational needs for different individuals. Some people want stability (a piece of the rock) while others prefer the flexibility of a lease. The distribution of these choices in the abundant Houston market is a statistically perfect 50/50. It appears that the two choices reflect two different perceptions of reality similar to the effect of PUT and CALL options on the Wall Street: both lead to an increase in wealth based on totally opposite outcomes. Therefore, the value of both choices, while opposite, are about equal to the owner and the tenant.

Being a tenant or an owner in Houston is an arm's length choice. Many people will remain tenants, and many will remain owners for life unless their individual needs change. There is continuous migration between tenants and owners, and owners and tenants, which appears to be in balance overall.

Thus, if tenants are tenants voluntarily why did so many recently choose to become owners? Low interest rates are an oft quoted reason. This answer is an outcome of rationality that ownership represents a higher value than renting. Given low enough interest rates, everyone prefers to own.

But doesn't the rationality of a tenant in an abundant real estate market lead to different decisions? Yes. Therefore, it appears that the recent migration from tenancy to ownership is an involuntary choice for many tenants. In Houston what forces tenants into ownership is rent higher than the cost of ownership for a similar type of housing. Given the opportunity expressed by comparatively lower rents, local tenants continue to prefer renting instead of owning even in a low (and affordable) mortgage rate environment.

Thus, in Houston, landlords must be prepared to continuously update their marketing strategy to determine competitive rental rates for their property. Pricing the rent lower than the cost of ownership maximizes occupancy rate and retains the rental market in near equilibrium.

Out of choices, but in desperation, in the last diamond shop, the diamond dealer spots a teenaged high school dropout apprentice, and without much ado asks him to cut the gem. Ignorant of the risk, inattentive to the gem's potential value, the boy quickly delivers the value from the rough the diamond dealer expected.

The above examples of successful applications of different work experience levels find their corollaries in the landlording business. After making a decision to become a landlord, one must make a decision whether to manage the property herself or to turn it over to others who may have more experience.

For many landlords, hiring a property manager does not make much sense. For one thing, a property manager's effort is difficult to measure. Just like flying an airplane, the pilot's successful effort to bring the plane home seems to involve minimum effort. The preemptive effort is largely invisible. Upon arrival, the pilot's smile confirms the ease of the job. Flight after flight, the same smiling pilot waves good bye to the passengers without breaking a sweat. Exactly what is it about his job that's so difficult?

So, like a teenaged stone cutter, many new landlords enthusiastically take on the landlording job themselves. Unaware of the risks, they often successfully fly through the turbulence. A missed gem cut may not be noticed. If it is, it is considered an experience curve; one promised not to be repeated. The self-management effort continues for extended periods of time until a crash landing. After a crash landing, too financially damaged, landlords exit the business. Those who manage the crash landing with less damage turn their attention to professional property management colleagues for new guidance or for hire; the newly perceived business dimensions are no longer worth their risk to handle; the profits of the property owner's professional activity are now too high to ignore.

Hanging out under "The Property Managers for Hire" Company's hangar, professional property managers offer self-managing owners their experience and remain available to fly their planes on a minute's notice. But finding successful pilots requires the coordination of mutual interests. For the landlords, property managers flying without the parachute of services competing for property management space is the prelude to a successful takeoff and landing. They take on the gem cutting without suggesting the sale of it. Their ability and willingness allows the gem owner to make the most of her diamond in the rough.

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