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Average Mortgage Rates  
07/15/2003 - 02:00 PM

30 year fixed:	5.465%
15 year fixed:	4.824%
1 year ARM:	3.662%

source: INTEREST.COM

January 19, 2003

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## Crossing the threshold

By Matt Surman , Special to The Times

With rents high and interest rates low, is now the time to go from renter to owner?

John Michael has lived the dorm life. He's lived the apartment life. And, at 28, he's just begun his married life.

The Van Nuys apartment dweller now dreams of buying a two-story Victorian house where he can putter, work on his carpentry and just generally practice "the nesting thing" with his new wife.

"That's the normal step after you get married," said the cabinet maker and pop artist.

But, in California, where home prices rise even as the stock market sputters, that next step isn't easy for a new generation getting ready to settle down. Many are still working on careers that haven't hit their stride and that might easily be disrupted in an uncertain economy.

With interest rates low, experts say that, despite through-the-roof prices, it is still a good time to buy. The decision to purchase or rent, however, hinges as much on mental preparedness and comfort levels as on finances.

Even with only a 3% to 5% down payment, Southland buyers can end up with lower monthly mortgage payments than rent would cost, said John Karevoll, an analyst at La Jolla-based DataQuick.

It's not just mortgage interest rates that factor into the equation. Because the rental market is tight and rents high -- a situation very different from the mid-1990s when rents and home prices were lower -- conditions favor buying, Karevoll said. "These things ebb and flow."

Unlike other parts of the country, rental rates are rising fast in the Los Angeles area, with the biggest increase in the last two years during the third quarter of 2002, according to Novato-based RealFacts.

## Photos



Crossing the threshold  
(REUBEN MUÑOZ / LAT)

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The average Los Angeles County monthly rent for all apartments rose from \$1,254 in June to \$1,295 at the end of October. (That includes a high of \$2,487 in Santa Monica to lows of \$500 to \$700 in El Monte and Compton.) Compare that with a \$1,179 monthly mortgage payment in Los Angeles County, according to figures from DataQuick.

Still, buying isn't for everyone. Delia Fernandez, a Los Alamitos-based financial planner, said the many good reasons not to buy a house relate to lifestyle: if you expect to move soon, if your financial situation could change, if it's very important for you to live, say, by the beach and focus on your social life.

Instead of buying a home to increase your wealth through equity growth, you could, for example, get a roommate, cut back on your rent and try to put the rest of your savings in bonds or a certificate of deposit. But, even then, she said, you would be unlikely to make more money than you would by purchasing a house right now.

"Sooner or later, stocks will come back, but interest rates won't remain this low," Fernandez said. "It hasn't been like this since Eisenhower." Fernandez offered this comparison. In one scenario, a person takes a cheap apartment or gets a roommate and is able to put \$700 into a CD at the beginning of each month. After 10 years, at 5.3% interest, the renter would have \$110,948. But, because taxes will eat away at his savings, he needs to save \$1.27 for every dollar he ends up with.

In the other scenario, a person buys a \$250,000 house. Assuming a conservative 3% inflation rate, the home would be worth \$335,979 in 10 years. Because the homeowner was spending down the mortgage, he would likely add an additional \$30,000 in equity. The house, with all its tax deductions, would make him as much money as the CD, without the roommate. Because of government incentives, he only needs to put away 72 cents to make a dollar, Fernandez said.

"The first one is leaning into a headwind," she said. Tax deductions on housing "are the No. 1 gift Uncle Sam gives us."

But Carl Turve, a real estate agent at Century 21 in Fullerton, said he doesn't blame anyone for sitting it out right now.

"It's the high price, as simple as that," said Turve, who has seen buying slow in his area because prices are rising quickly. "If interest rates go down, the prices go up to the maximum."

A typical middle-of-the-road condominium sells for about \$200,000 in Fullerton, he said, with a mortgage payment of around \$1,700. The rent on a two-bedroom apartment: \$1,200. The \$500 difference can be too much of a stretch for many budgets.

"Once you miss that \$500 comfort zone, you just can't do it," he said.

Unlike 10 years ago, when the market bottomed out and some lucky people were able to buy into the market at lower prices, DataQuick's Karevoll doesn't see the speculative market now that led to disaster then for some.

He said that most buyers still seem prudent and aren't overextending

themselves. Actual mortgage payments are below what they were in 1989, Karevoll said, and that's a good sign that the housing market is unlikely to repeat the bubble of the late 1980s, which led to a depression in the market in the early 1990s.

But, even if it does, if you know you're staying put and can stick it out, your house will build equity.

"Those people who stayed are still looking pretty good today," said Nancy Langdon-Jones, a financial planner in Upland. "Like the stock market, things will come back."

Matt Surman is a Pasadena freelance writer.

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