To Rent Or To Own

by Steve Brown

We've followed with some interest the rise of the rental economy, much of it powered by internet-based communication between people who otherwise would never be able to find one another. Airbnb brings people with a spare room or apartment space together with those looking for short-term accommodation. Uber helps people needing a ride and unable to find a taxi. Beyond short term rentals and car shares, people are renting designer gowns for prom night, along with tools and numerous other items. It all carries risk of course, especially in that it entails doing business with strangers, but it's made sense in the economic downturn for people to look for ways to spend less money. There is also logic in sharing seldom-used items versus acquiring them, or in generating income from unused space. There is also a cultural move to value experience over possessions, so this is particularly appealing to younger consumers.

At the same time, we read business articles that express concern about younger consumers not purchasing homes as they have in the recent past. It's speculated that a primary obstacle for first-time home buyers may be the higher down payments required by banks. Research finds the median down payment for a home in the lowest 25% price-range hit a low of 3.1% in 2006. From 2001 - 2007, the median down payment for that sector was 4.2%. What happened next is in the history books. Home prices declined far more than the amount most borrowers had put down, many buyers ended up upside down, owing far more than their home was worth. If they needed to sell their home for any reason, either they took huge losses or many simply walked away. Last year, the median down payment for the cheapest 25% was 7.5% or around $9,500. While the home affordability index has dropped, it is still around the same level as late 2008 and this seems pretty reasonable to us. After all, home buyers who have put down 7.5% have more ability to absorb a market downturn.

Further analysis finds that first time home buyers have historically made up about 40% of existing home sales and admittedly the current number is lower (around 28%). This has pushed down the percentage of home ownership to the lowest in 20Ys. There is concern that the economy cannot fully recover unless younger buyers in greater numbers enter the market and that the trend of lower home ownership fundamentally weakens the foundations not only of the housing market but of the economy as a whole. The other side of the fence is that when people buy a home they cannot fully afford and borrow too much, it puts the whole economy at risk. Many young professionals are earning less due to stagnant wages and also carry high student debt levels, so a lower level of home ownership makes sense given this context.

Finally, consider that given the state of the economy, buying a home early in a career may be a less advantageous strategy. Since employment is still tepid in many places, and especially given the difficulty in finding quality jobs, it may make sense for younger people to not tie themselves down or increase their debt. Home ownership also means they lose flexibility to relocate early in their careers. As such, many younger people are deciding it is more advantageous to rent than buy a home until their economic picture becomes more certain.

Owning a home is considered a time-honored path for building wealth. However, the young consumer's preference to rent rather than own--be it a formal gown or a home--likely reflects more than a generational trend, but a reflection of the economic times.

BANK NEWS

M&A

First State Bank ($534mm, MS) will acquire Bank of Jones County ($227mm, MS) for an undisclosed sum.

Branch Closures

Citizens Community Federal ($565mm, WI) said it will close 3 branches following a review of growth opportunities and efficiencies.

Branch Sale

American National Bank ($2.2B, NE) said it will sell 1 branch to Cass County Bank, Inc. ($56mm, NE) for an undisclosed sum.

Cyber Wow

JPMorgan Chase says a recent cyber attack compromised customer information for about 76mm households and 7mm small businesses. By comparison, recall that Home Depot's recent cyber attack reportedly impacted 56mm customer debit and credit cards and Target was about 40mm.

Clouds Expected

A survey by SAP finds 42% of banks surveyed say they consider cloud based (or software as a service) solutions for every technology project. Meanwhile, 80% of technology decision makers said such solutions enable banks to respond faster to market changes and opportunities.

Data Leakage

Experian reports a whopping 43% of companies had a data breach in the past year vs. 10% from the year prior.

Securities Fraud

The SEC has filed securities fraud charges against the state of KS after reviewing bond offering documents. KS reportedly did not disclose material pension liabilities (failed to disclose it was significantly underfunded) and the repayment risk to investors as a result.

Customers

Research by McKinsey finds 48% of affluent customers with more than $200k prefer to get customer service issues resolved using social networks vs. phone or face to face. This percentage compares to 29% for those with $150k to $199k; 25% for those with $100k to $149k and 21% for those with $75k to $99k.

Customers

Citibank reports a recent survey of consumers found 65% either don't own a checkbook or prefer not to use checks and go online or use mobile instead.