

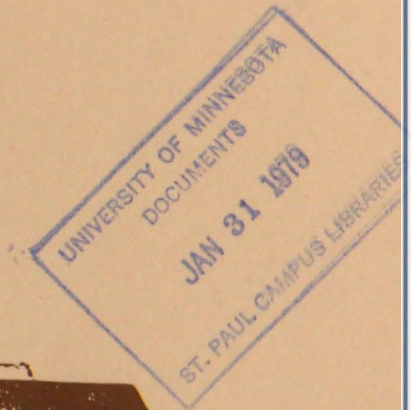
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consumer housing alternatives

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| CONTENTS | PAGE |
|--|------|
| Introduction | 3 |
| Residential Adaptation | 4 |
| (Remodeling) | |
| Residential Mobility (Moving) | 5 |
| BUILD, BUY, OR RENT? | 6 |
| Building | 7 |
| OWNER-BUILT OR CUSTOM-BUILT | |
| HOUSING? | 7 |
| FORM OF CONSTRUCTION | 8 |
| Stick-Built | 8 |
| Pre-Cut and Component Fabrication | 8 |
| Panelized | 8 |
| Modular | 9 |
| Buying | 9 |
| FEE-SIMPLE OWNERSHIP | 9 |
| COOPERATIVE OWNERSHIP | 10 |
| CONDOMINIUM OWNERSHIP | 10 |
| SUMMARY — HOME BUYING AND | |
| OWNERSHIP | 11 |

| CONTENTS | PAGE |
|--|------|
| Renting | 11 |
| EXISTING OR NEW DWELLING? | 12 |
| Existing | 12 |
| New | 13 |
| TYPE OF STRUCTURE | 13 |
| Detached Single-Family House | 14 |
| Mobile Home | 15 |
| Attached Single-Family Dwelling | 16 |
| Apartment | 17 |
| Summary — Structural Type | 17 |
| Family Adaptation | 17 |
| Summary | 18 |
| For More Help | 18 |

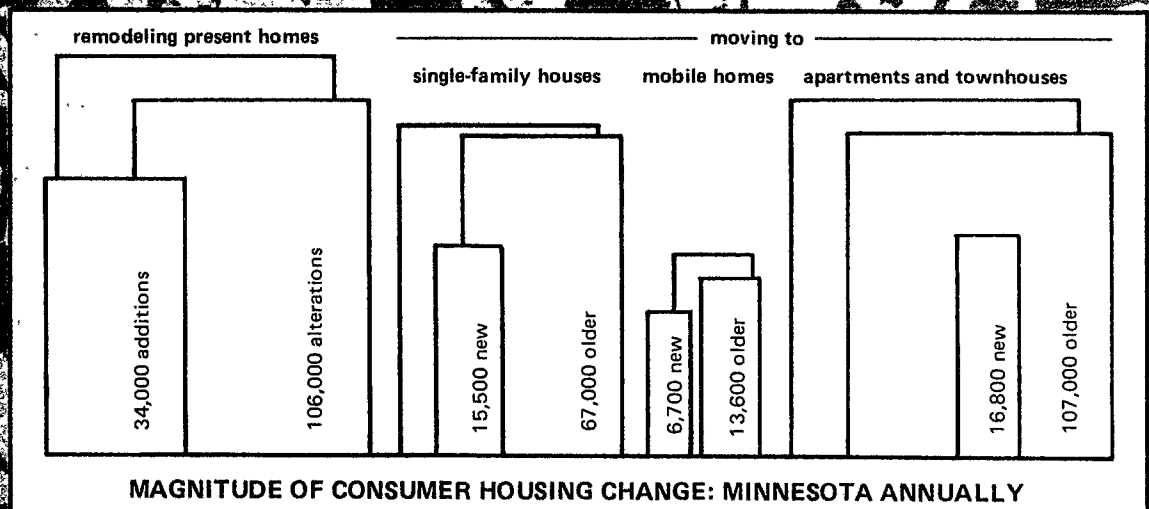
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Consumer Housing Alternatives

The author wishes to acknowledge the following consultants for their assistance in reviewing this folder: Leon Wallace, Minneapolis Housing Authority; Greg Rufer, Northwestern National Bank, Minneapolis; Virginia Nagle, University of Minnesota; and numerous students and consumers.

Are you planning to join the half million Minnesota families trying to improve the quality of their lives by making a major housing change this year? Are you, perhaps, planning to move or remodel?

Will your decisions help provide the quality of life you desire? Or will you find that your decisions cause grief and frustration?



MAGNITUDE OF CONSUMER HOUSING CHANGE: MINNESOTA ANNUALLY

The answers are not simple. Local, state, and national consumer agencies have noted that housing is a major area of problems and complaints. This situation appears to be caused in part by the financial magnitude of housing decisions as well as the complexity of legal, financial, and technological factors associated with housing changes. Perhaps even more important, however, is that many families slide into housing decisions without carefully examining expectations and alternatives.

A classic example of unrealistic expectations is the single-family detached house. Many families aspiring to own a new house may encounter serious trouble unless family members are ready to consider alternatives.

Recent news articles and television programs have pondered the fate of the great American dream, the single-family detached house. Perhaps nothing is more fundamental and universal to our society than the desire to own a home on your own land, preferably in a convenient but tranquil semi-rural setting.

The problem is that the majority of families cannot afford to buy a new house in the present climate of inflation, high interest rates, increasing energy costs, and more stringent environmental restrictions. With fewer buyers, the new single-family house has become a prime candidate for the endangered species list.

If you approach your housing decisions by examining your expectations and alternatives, you may find that remodeling would be the

best alternative for your family. Maybe buying a townhouse, condominium apartment, or older house will give you the most for your investment.

The purpose of this folder is to help you weigh your basic housing alternatives. Perhaps, you'll finish with more questions than when you began. We'll try to guide you in the right direction to find answers to these questions and encourage you to become a knowledgeable consumer.

Remodeling, building, buying, renting, or adapting your family to present housing are the basic types of alternatives you will encounter.

During the past several decades, social scientists have studied the family's unique relationship to its housing and the methods by which the family adjusts its housing to changing circumstances and preferences. Researchers, notably Morris and Winter, have observed that family housing adjustments may take the following forms:

Residential adaptation: the family adjusts its present housing by remodeling (additions or alterations) to come closer to fulfilling preferences.

Residential mobility: the family moves from one housing environment to another that more closely fulfills preferences.

Family adaptation: the family alters its composition, and thus its housing preferences, by postponing childbearing or encouraging a decline in family size (for example, suggesting an aging parent move to a nursing home or an older child move to an apartment).

This folder is a condensed version of a chapter written by the author for *Housing Perspectives: Individual and Family* (Carol S. Wedin and L. Gertrude Nygren, editors; Burgess Publishing Company, Minneapolis, Minn.; 1976) which was stimulated in part by a theory of family housing adjustment advanced by Earl W. Morris and Mary E. Winter in *Housing, Family and Society* (John Wiley and Sons; New York; 1977). Remarks in the introduction of this folder are based in part on "Say Goodbye to the Great Dream" in *S & L News*; July 1975: 40-46. Readers who want further detailed analysis of consumer housing alternatives or a listing of relevant research and data should refer to these references. Data cited in this folder, which reflect the situation specifically in Minnesota, are available from the author.

RESIDENTIAL ADAPTATION (REMODELING)

Remodeling, one of the most popular forms of housing adaptation, involves altering or adding to the family's present home. Remodeling may range from simply finishing a basement or attic to complete renovation. A trade magazine estimated that during the mid-1970's annual remodeling projects included the following:

Remodeling is most popular among farm families and homeowners under 45 years of age, especially those living in communities with stable populations. When families are growing,

Table 1. Profile of Remodeling Projects: United States and Minnesota Estimated Annual Average.

| Type of project* | United States | | | | Minnesota |
|--------------------------|---------------|---------|--------------------------------|-----------------------|--------------------|
| | Number | Percent | Percent of projects which are: | | Number of projects |
| | | | Completely do-it-yourself | Partly do-it-yourself | |
| | | | percentage | | |
| Kitchen remodeling | 2,805,600 | 28 | 54 | 26 | 51,520 |
| Bathroom remodeling | 2,505,000 | 25 | 62 | 22 | 46,000 |
| Basement room additions | 1,352,500 | 14 | 76 | 16 | 25,760 |
| Porches enclosed | 951,900 | 9 | 45 | 24 | 16,560 |
| Room additions | 851,700 | 8 | 38 | 36 | 14,720 |
| Bathroom additions | 701,400 | 7 | 46 | 31 | 12,880 |
| Garage additions | 601,200 | 6 | 51 | 22 | 11,040 |
| Carport additions | 200,400 | 2 | 22 | 17 | 3,680 |
| Attic room additions | 150,300 | 2 | 56 | 25 | 3,680 |
| Total number of projects | 10,120,000 | 100 | — | — | 184,000 |

*Source: *Building Supply News*. November 1975. (Figures represent 1974 estimates.)

Note: Estimated number of remodeling projects in Minnesota was derived in the following way:

— first, the 1974 number of projects in the U.S. was divided by the 1974 number of households in the U.S. (see *Population Estimates and Projections*, P-25, No. 544, 1975).

— second, this national proportion was multiplied by the number of Minnesota households in 1974.

Note: Although remodeling projects are estimated at 184,000 for Minnesota, some households engage in two or more projects at the same time. Using other data, it appears that approximately 140,000 Minnesota families remodel during an average year.

room additions are common. Kitchen and bathroom remodeling are prevalent in houses 20 years old or older. Remodeling may be less desirable for certain consumers. For instance, renters seldom remodel because their leases usually prohibit "improvements." Furthermore, renters generally have little legal assurance that the owner will not raise the rent if they improve their dwelling. Older individuals seldom want to tie up potential retirement funds for major remodeling nor do they experience a growing family which necessitates additions. When older individuals remodel, they generally improve existing space, such as kitchens and bathrooms.

One of the most important advantages of remodeling is that substantial costs of selling (up to 10 percent of the selling price), moving, and buying (settlement costs average 2 percent of purchase price) can be avoided. Furthermore, remodeling offers consumers the opportunity to do much of the work themselves. The do-it-yourselfer can save about half of the cost of additions and up to two-thirds of the cost of interior alterations. Other important advantages of do-it-yourself remodeling are: 1) work can proceed at the owner's convenience and ability to pay, 2) the owner knows exactly what is there when remodeling begins and ends, and 3) doing the work can provide a sense of self-achievement.

Some problems that may restrict the desirability of remodeling are: 1) home improvement financing generally carries a higher interest rate¹ than a home mortgage, 2) dust, dirt, and noise may inconvenience normal family living, 3) unexpected problems frequently arise which delay completion and add to costs, and 4) financial over-improvement (when changes do not substantially increase resale value) is common.

For more information and guidance in remodeling, get Remodeling Older Minnesota Homes, Extension Folder No. 268 (free) from any county extension office in Minnesota.

RESIDENTIAL MOBILITY (MOVING)

Moving is the most prevalent form of housing adjustment. Each year, about 20 percent of Minnesota's population moves. Nearly half of these moves are the result of the family's desire to find a better home.

Renters are about four times more likely to move than owners. This trend reflects the fact that it is easier and less expensive for the renter to move than the homeowner. Furthermore, remodeling is substantially less feasible for the

¹Local, state and federal remodeling loans for low- and moderate-income families have become available in recent years. In some cases, interest rates have been as low as 1 percent.

renter for reasons previously noted: improvements may be prohibited in the lease; there is little assurance the rent will not increase; and uncertainty that the lease may not be extended. In short, moving is more practical than remodeling for certain consumers, including renters.

Moving is advantageous when consumers are dissatisfied with their housing in ways that cannot be remedied by remodeling. For instance, social or physical characteristics of the neighborhood may not be satisfactory; local zoning regulations may prohibit adding space to the dwelling; or the financial costs of correcting poor design, structural defects, or inadequate mechanical systems may be excessive. In these situations, moving is generally preferred.² Finally, moving is generally necessary for those with changing career aspirations and income situations.

The disadvantages of moving should be considered, however. First, the financial cost of moving, especially for owners, may be excessive. Second, the social cost of moving, especially for many families with children, also may be excessive because neighborhood and school associations could be disrupted.

It is important to seriously consider both advantages and disadvantages of moving before making a housing change. If it appears that moving is the best decision even though it may unfavorably affect a family member, you may wish to discuss the situation with a trained social worker or clergy person.

²For farm families and some rural residents who find neither remodeling nor moving suitable choices, the alternatives of building a new house on the present homesite (and tearing down the old house), buying a mobile home, or even moving an older house to the homesite may be more practical.

Build, Buy, or Rent?

If you have decided to move, you face a second set of alternatives: whether to build a new house or to buy or rent a place. Each of these alternatives has relative advantages and disadvantages. Furthermore, each alternative generally offers important flexibility:

- building—build it yourself or hire a custom builder.
 - use stick, pre-cut, panelized, or modular construction.
- buying—own the home in the fee-simple, condominium, or cooperative form.
 - move to a new or existing (previously occupied) dwelling.
 - move to a single-family house, townhouse, mobile home, or apartment.
- renting—move to a new or existing (previously-occupied) dwelling.
 - move to a single-family house, townhouse, mobile home, or apartment.

If you are planning to move you should invest the necessary time to thoroughly evaluate each of these alternatives according to personal goals and resources. Some of the major factors associated with building, buying, and renting follow.

BUILDING

Building a specially designed home is a major American dream few consumers achieve. Building a new home is also time consuming and expensive. Nevertheless, about 7,000 Minnesota families build a new home each year while another 8,000 buy a new house and 43,000 buy an older home.³

Why do consumers choose to build? Some individuals, in rural areas especially, find that if they want a new house they must build because there is little "speculative" construction.⁴ In some cases buying is simply not feasible for

farm families; thus, building is necessary. However, building offers several important advantages.

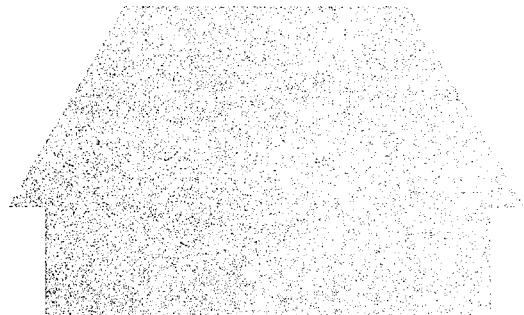
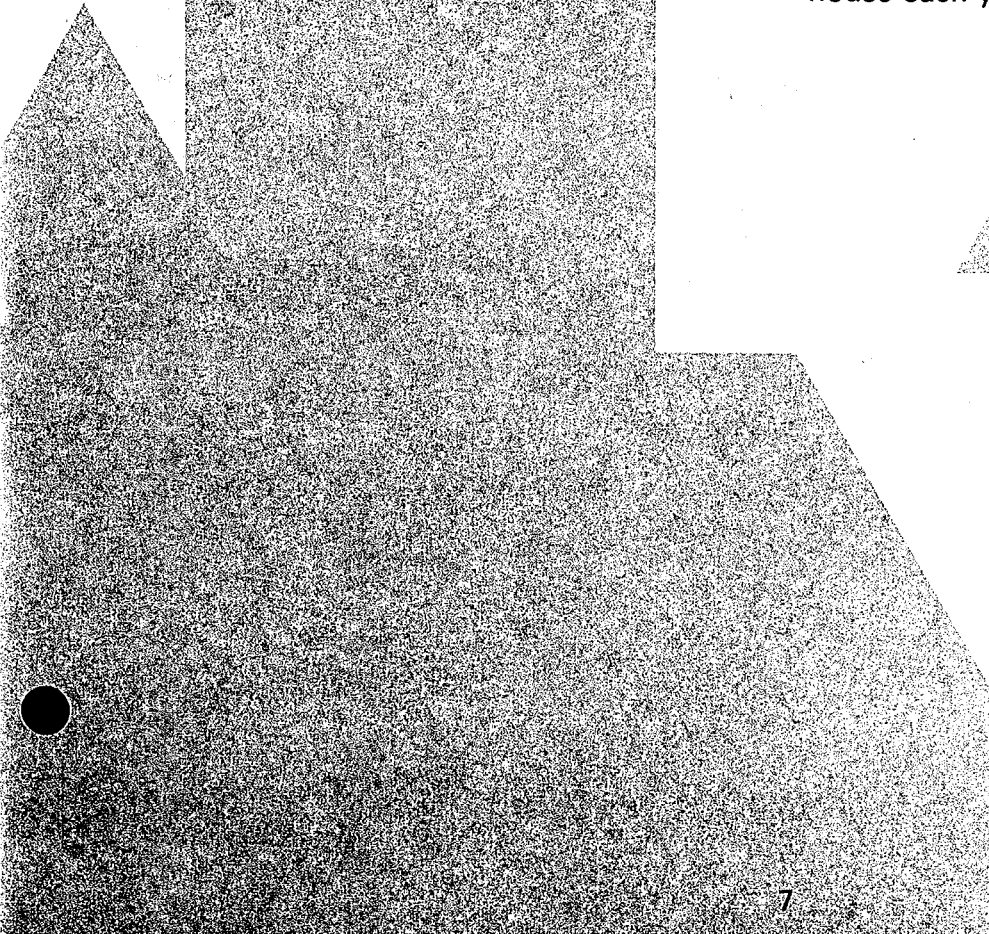
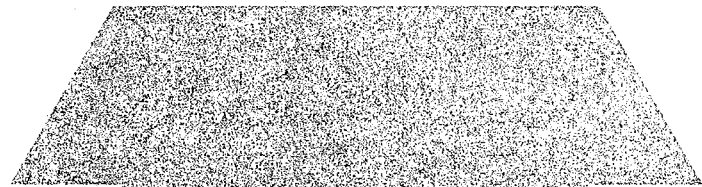
You can develop the site and plan the house exactly as you wish (within the constraints of budget and local regulations, of course) rather than purchasing a speculative house built for a hypothetical family. It may be possible to incorporate features not generally found in speculatively-built houses which reduce long-term costs and maintenance responsibilities or are otherwise desirable (e.g. triple glazed glass, additional insulation, and efficient fireplaces).

Also, it may be possible to reduce building costs by doing some of the work yourself and gauging the progression and cost of building according to your family's needs, interests, and budget.

The degree to which you will realize these advantages depends largely upon the type of construction selected as well as the amount of work and supervision you do. These two factors are further alternatives when building your own house.

Owner-Built or Custom-Built Housing?

The 7,000 Minnesota families who build a new house each year are evenly divided between



owner-builders (doing some or all of the work themselves) and individuals hiring a custom-builder. Owner-builders are generally younger and have lower incomes than individuals utilizing a custom-builder. Owner-building allows the consumer an opportunity to build a new house according to individual needs within the constraints of income, time, and skills.

In addition to the substantial time and skill requirements of owner-building, the do-it-yourselfer faces the often difficult challenge of arranging construction financing. The severity of this problem is reflected by the fact that over half of owner-builders finance their homes with cash where as less than one of every 20 buyers of "spec-built" homes do so. Other significant challenges the owner-builder often encounters include: obtaining adequate discounts from material suppliers; receiving prompt service from subcontractors (e.g. electricians, plumbers, heating-cooling installers, etc.); efficiently scheduling material delivery and construction; and gaining the support and approval of building code officials. Depending on the individual's ability to work within these constraints, owner-building may reduce the initial costs of building a maximum of 45 percent, although the savings are frequently much less. The decision to owner- or custom-build is determined by how you wish to invest time and money and how much you enjoy working with your hands.

Form of Construction

Major technological advances in construction practices have been widely implemented during the past 30 years. If you are planning to build a house, a general understanding of the various forms of construction is important. The four major forms of construction are: stick-built (on-site); pre-cut and component fabrication; panelized; and modular. Each construction form has certain characteristics and advantages.

STICK-BUILT construction is the traditional and most common form of building in which most elements of the dwelling are prepared piece-by-piece and assembled on the construction site. Approximately 80 percent of single-family construction in Minnesota is of the stick-built type. The major advantages of stick-built construction are maximum flexibility in design and construction and greatest opportunity for

owner involvement (i.e., do-it-yourself work) during construction. Stick-building, however, is extremely susceptible to delays and problems caused by weather. In some communities materials, designs, and other features may be restricted by the experience, whims, and wishes of local builders and/or sub-contractors.

PRE-CUT AND COMPONENT FABRICATION is one step removed from on-site stick-building. This form of construction relies upon off-site preparation (i.e., cutting) of structural and finishing material and perhaps fabrication of certain components (e.g. roof and floor trusses, pre-hung doors, stairways, plumbing trees, bath and kitchen cores, etc.) which are then delivered to the building site for final assembly. The vast majority of residential construction employs one or more manufactured components.

The popularity of off-site preparation and component fabrication is related to several distinct advantages. On-site construction time is reduced and any shortage of local labor is minimized. It also is easier to control quality to a greater extent off-site, material waste usually may be reduced, and delays due to weather are less likely. The combined result is that construction costs and time may be reduced. Currently, many lumberyards as well as specialized component manufacturers market their products to owner-, custom-, and speculative-builders.

PANELIZED construction is the most common basic form of manufactured housing. Panelized construction is used for building about 1,000 new single-family homes in Minnesota each year. Panelized construction involves the assembly of pre-cut and fabricated components into flat wall, floor, and ceiling panels. Depending on the degree of completion, panelized construction may be of two types: open-panel in which one or both sides are left unfinished and open; and closed-panel in which both sides of the panel are enclosed by interior and exterior finished materials. Closed-panels normally include wiring, plumbing, windows, doors, insulation, etc. The advantages of panelized construction are essentially the same as for pre-cut and component fabrication although cost savings, reduced time requirements, etc., are potentially greater. Design and construction flexibility may be reduced, especially if the consumer is purchasing a "packaged home" through a franchised dealer.

MODULAR construction represents the most advanced form of factory-built housing. However, only several hundred single-family homes are modular-built each year in Minnesota. The primary difference between modular and other forms of construction is the degree to which fabrication takes place off-site in the manufacturer's plant.⁵ Before delivery to the building site, the manufacturer combines all the home's components into room or sectional modules complete with plumbing, heating, wiring, doors, windows, trim, etc. The dwelling essentially is complete and only needs to be placed on the consumer's foundation and connected to utility services. Modular construction maximizes the advantages of pre-cut and component fabrication as well as panelized construction. The disadvantages of reduced design and construction flexibility are generally intensified.

If you choose to build a new house, you face important additional decisions about the amount of work to do yourself and the type of construction which best suits your needs and resources as well as the nature of the community's housing market.

BUYING

While many families may wish to build a new home, most find buying more realistic. In fact, 10 times more families in Minnesota will be buying a home rather than building this year. This predominate trend toward buying reflects some of its basic advantages.

It is much easier to buy rather than build unless you buy an older home needing substantial remodeling. Fewer complications arise when buying. Contracts do not need to be negotiated. Building permits, zoning, and subdivision regulations do not impose constraints. Difficult-to-obtain construction financing is not a relevant factor. Increasing labor and material costs are not a concern. Material shortages and poor weather do not cause problems. Furthermore, the buyer encounters no problems visualizing what the dwelling will look like or how it will function when completed. The completed dwelling, rather than sketches, plans, or complicated specifications, is easier to evaluate.

Generally less time is required to buy a house than is necessary to build. It is possible to pur-

chase a house in a matter of days while building usually involves months of preparation and work developing or selecting plans and specifications for bidding and negotiations, land preparation, financing, construction, etc.

The vast number of existing and speculatively-built units offers the consumer a wide range of choices. Prices may range from a low of several thousand dollars for a used (pre-occupied) mobile home to about \$48,000 (1977 Minneapolis area average) for an existing single-family dwelling. The average custom-built house, in comparison, is about 25 percent more expensive than the average price of speculative-built and existing dwellings. There are also several other advantages of buying (owning) when compared to renting.

Home ownership traditionally has been one of the consumer's safest financial investments and best hedges against inflation. Owner-occupied homes generally have increased in value at rates similar to inflation while the costs of the original mortgage have remained constant. Thus, the consumer's increasing equity can be applied toward the purchase of another home.

The homeowner may obtain a mortgage and, thus, enjoy a form of forced savings whereby equity is built up which may be liquidated upon sale or used as collateral for a loan if desired; greater federal income savings through the deduction of interest and property taxes from taxable income; the ability to obtain credit (i.e., mortgage) at an interest rate less than any other form of consumer credit. As noted previously, most mortgages have a fixed interest rate which will not increase during the life of the mortgage.

Compared to renting, the advantages of ownership are that you can use, maintain, and improve the property when and as you see fit. It is not necessary to wait for a landlord to approve or take action.

The degree to which you will realize these advantages will depend, in part, upon what type of ownership is involved: fee-simple, cooperative, or condominium. These forms of ownership are another set of available alternatives.

Fee-simple ownership is the traditional and most popular form by which Minnesotans buy their homes. During the mid-1970's, 94 percent of Minnesota families buying a home purchased in fee-simple. The buyer receives all the rights and privileges to use the property as de-

⁵Though mobile homes essentially are a form of modular construction, they are excluded from this analysis because they are built according to a separate building code and sold, taxed, and financed differently than more permanent modular housing.

sired except as modified by zoning, subdivision, building, and other regulations as well as deed and mortgage restrictions or lien interests. Fee-simple ownership grants the owner the most substantial property rights.⁶

Cooperative ownership is a relatively new form of ownership whereby the buyer becomes a stockholder or member of a nonprofit corporation that owns the property. The tenant-stockholder receives exclusive right to occupy a dwelling unit and shares with other owners the rights and responsibilities of ownership.

While the advantages of cooperative ownership are similar to fee-simple ownership, there are other advantages. The individual has some control over both the dwelling and the immediate environment (the fee-simple owner generally does not). This form of joint management also may provide social benefits for people desiring interpersonal contacts.

The fact that cooperative housing is financed by a single loan to a corporation rather than directly to individual owners is the most unique characteristic distinguishing cooperatives from other forms of tenure. This is also the basis for most of the cooperative's disadvantages.

First, the individual tenant-shareholder may find it more difficult, time consuming, and costly to sell his or her interest (stock) in the cooperative since the buyer must raise an adequate downpayment to finance the purchase under the original mortgage (i.e., cannot pay cash or re-finance with a new mortgage). This limitation may be especially severe if the seller has enjoyed substantial appreciation or if a sizable equity has been built. In many cases the buyer also must be approved by the board of directors before the sale can be completed.

Each tenant-stockholder in a cooperative is jointly liable. Thus, each usually can be assessed a proportion of another stockholder's pro-rata share of mortgage, tax, insurance, utility, management, and maintenance charges if that stockholder defaults on payments. Because there is only a single mortgage made to the corporation representing the group of owners, most financial institutions will not accept an individual's equity in cooperative stock as security for a loan.

⁶Buying a home on a contract for deed is a special form of fee-simple ownership in which the seller agrees to give the buyer title to the home after the buyer satisfies the terms of a contract (e.g., pays a certain amount of money). Thus, the seller remains the legal owner of the home until the contract is satisfied.

Finally, the individual tenant-stockholder's freedom to use (including renting to a nonmember), maintain, and improve the dwelling unit may be restricted by the cooperative's by-laws and declarations and controlled by the cooperative's board of directors. The desirability of a cooperative is dependent largely upon the ability of individual tenant-stockholders to make wise decisions collectively and perhaps contract for a professional management and maintenance service.

Condominium ownership is another new and increasingly popular form of ownership in Minnesota. The buyer obtains fee-simple ownership of a dwelling unit as well as shared, undivided interest (ownership) in additional property and facilities held jointly with other owners.

It appears that condominium ownership is a more attractive alternative to young individuals who are professionally employed but lack the financial resources to purchase a dwelling in fee-simple or who do not have the desire to invest substantial amounts of time in maintenance activities. These trends reflect the relative advantages of condominium occupancy.

Since individual owners are responsible for their financing, condominium owners generally find it easier to sell their property than cooperative tenant-stockholders. The condominium owner also enjoys greater freedom to use (including renting) or improve the dwelling than either the renter or cooperative owner.

Second, the condominium owner's financial risk (liability) is not intermingled with other owners to the degree found in cooperatives. Usually, only maintenance and management costs are shared in condominium developments while cooperative owners share all costs.

As with leasehold (rented) and cooperative tenure, exterior maintenance and the upkeep of common areas and facilities generally are not the responsibility of individual condominium owners although each owner indirectly pays for these services through association fees. To many consumers, the condominium approach is a desirable balance combining fee-simple ownership of a dwelling unit and joint control of common areas without direct maintenance responsibility.

The disadvantages of condominium ownership are related to the undivided shared interest in

common areas and facilities. While this arrangement permits each owner to have input into the maintenance and management of the development, the individual's interests may not be reflected in collective decisions such as exterior paint colors, level of upkeep, operation budgets, and assessments.

Condominiums may be sold on the leasehold basis (ground or recreation leases) in Minnesota and many other states. Although the leasehold approach may reduce the initial purchase price of a condominium dwelling as much as 30 percent, this savings generally is negated by monthly lease payments. Furthermore, the leasehold does not offer the income tax advantages that standard association ownership provides. *Leasehold condominiums also have been a major source of consumer complaint in recent years and thus should be approached only after careful evaluation and substantial legal counsel.*

Summary — home buying and ownership. Although state statutes vary substantially, fee-simple, cooperative, and condominium ownership are generally possible for buyers of all types of dwellings whether mobile homes, townhouses, single-family houses, or apartments.

All forms of ownership are created and defined by certain legal documents. The legal instruments necessary to establish a condominium for example, include: the master deed which creates condominium ownership for the property; the recorded plot which graphically describes individual units and common areas; and the by-laws which create the association's administration and regulations. *Because of the complexity of legal instruments and state statutes, it is imperative to have competent legal advice whenever buying a home whether in the condominium, cooperative, or fee-simple form.*

RENTING

Although Minnesota has one of the nation's largest concentrations of homeowners, many consumers (about 29 percent of the state's households) find renting more desirable for their lifestyles.⁷ In fact, the vast majority of consumers rent at least once during their lifetimes, the first home away from the parents' home.

The popularity of renting appears to be well established. Nationally, for example, the historical trend toward home ownership has slowed to almost no proportionate gain during the past 15 years.⁸ This situation appears to be similar in Minnesota: 384,000 households rent their homes (29 percent) while 953,000 (71 percent) own, which is proportionately similar to the situation 25 years ago. Renting is more prevalent among certain types of housing consumers: younger people; more geographically mobile individuals; households with fewer resources (e.g., income, savings, time, etc.); and the growing number of nontraditional, non-married households. These trends reflect some of the basic advantages of renting when compared to buying.

Renting permits greater flexibility to adjust housing as income changes and employment opportunities arise. It is usually easier and less costly to terminate a renting situation than to sell fee-simple, condominium, or cooperative property. This is one reason why one of every three Minnesota renters moves each year compared to one of every 10 homeowners. Financially, you would generally be wiser to rent rather than buy if you do not anticipate living in a dwelling for at least 3 years.

The initial costs of renting are minimal since the renter does not encounter downpayment and settlement costs. Generally, the renter must make only a deposit and prepay a month's rent while the average buyer faces initial expenses ranging from 2 to 5 percent of the purchase price and downpayment requirements averaging 20 to 30 percent of the purchase price. Since the renter has a very small financial investment in housing, he or she has greater investment flexibility and does not encounter "opportunity costs" as does the buyer.⁹

Monthly costs are usually much easier to predict since costly maintenance and repairs are generally the landlord's responsibility. The time necessary to maintain the dwelling is usually less for the tenant than the owner. Finally, inflation during recent years has not increased the costs of renting as much as owning for the

⁸From 1900 to 1960, the proportion of households owning their homes increased from 47 percent to 62 percent. Through October, 1975, however, this proportion increased only to 65 percent which includes many mobile home owners who rent a lot in a mobile home park (about 2 percent of all households).

⁹Opportunity costs are the income or cash which could be received if the owner invested the downpayment to receive interest or dividends.

⁷Reflecting changing life-styles is the "cooperative rental" or communal situation in which a group rents a dwelling. Each member shares in the financial or up-keep responsibilities.

average household. (As of January 1977, about a 50 percent increase in renting costs and 99 percent increase in ownership costs had occurred since 1967.) Whether renting costs continue to increase less rapidly than ownership costs during the next few years, however, is doubtful.

It is obvious that renting includes disadvantages you should also weigh. For instance, renting does not build up equity and thus does not provide a hedge against inflation, nor does it provide income tax savings to the degree that buying does. This latter fact is especially relevant for consumers in higher income tax brackets. The renter has no assurance that the landlord will not raise the rent when the lease expires while the homeowner with a mortgage generally has a better idea what future housing costs (especially for principal and interest) will be for 20 to 30 years. Also, the tenant usually has less control over housing since activities and improvements are generally restricted by the lease.

When considering leasing, it is important to realize that a binding agreement may be created by an oral or implied (from conduct of the parties) promise as well as a written lease. This form of occupancy is known as "tenancy at will." The major problems associated with "tenancy at will" are: the likelihood of misunderstanding; the difficulty of substantiating the terms (rights and responsibilities) of occupancy and thus, to enjoy the assistance one may receive from the courts for enforcement; and finally, the insecurity that occupancy may be abruptly terminated or rent increased at the will of the landlord. For these reasons, a written lease is generally desirable.

Renting may also involve situations in which the consumer holds property in fee-simple, condominium, or cooperative ownership. Examples of these situations include "ground leases" when mobile home owners lease lots in a mobile home park, or leasehold condominiums when the condominium association leases, from the developer or another party, the right to enjoy exclusive use of improvements (i.e., dwellings, recreational facilities, streets, walks, trees, etc.) for a specific amount of time, usually 50 to 99 years. As land costs escalate, ground leases are becoming more popular for mobile homes, single-family houses, townhouses, and apartments. The major disadvantages of renting a lot and owning a mobile

home or leasing facilities and owning a condominium dwelling is that it is nearly impossible to renegotiate the lease, and moving is prohibitively expensive.

Finally, Minnesota renters should know that their rights have been substantially improved during the past few years by legislative action and court decisions. The rights of renters in other states, however, will vary from very weak to quite strong. Therefore, a renter moving to another state cannot expect rights to be the same as in Minnesota.

Existing or New Dwelling?

If you decide to move, you have the choice of moving to either a new or existing (preoccupied) dwelling. The desirability of each alternative depends largely upon your needs, desires, resources, and other circumstances as well as the nature of the community's housing market.

Generally, most consumers find it most desirable to move to an existing rather than a new dwelling. This trend is most true of apartment renters while mobile home buyers have been more nearly evenly divided between moving to new and existing units.

EXISTING

Whatever the structural type, new or existing dwellings have unique advantages and disadvantages. For instance, the popularity of existing (older) dwellings is related to the following advantages.

The purchase price of older dwellings averages less than the price of newly-built houses. Existing houses, unlike new dwellings, also have an established "track record" of tax, utility, and insurance expenses. Consequently, it is easier to accurately predict most costs of living in an older house (maintenance expenses, however, are more unpredictable in older dwellings).

Craftsmanship and finishing details, natural materials, and a wide range of floor plans, designs, and styles are found to a greater extent in older dwellings than in new ones. Older neighborhoods also are established with mature landscaping, whereas the final character (land-use, traffic patterns, landscaping) of new areas is difficult to predict.

During periods of rising interest rates and tight mortgage money, buyers of existing dwellings may be able to assume the seller's mortgage at

a more favorable interest rate than that available for new dwellings. Approximately 12 percent of the owner-occupied dwellings in the United States have been financed by assuming the seller's mortgage.

Finally, problems associated with new construction (e.g. settling, "nail pop," and shrinkage) and certain other defects (e.g. absence of vapor barrier, poor quality windows, and wet basements) are easier to observe in existing dwellings. Generally, you can determine what corrective measures may be necessary. You may find it possible to purchase and rehabilitate an older (existing) dwelling at less cost than buying a new dwelling, especially if you are willing to do much of the work.

NEW

To make wise choices, you should recognize that new dwellings also have strong advantages when compared to older homes. These advantages include lower utility costs, especially for heating, because insulation, weather stripping, and heating systems tend to be better and more efficient than in older dwellings.

New dwellings also tend to have lower maintenance and repair costs because equipment, appliances, and components such as wiring, plumbing, and roofing will not need replacement for several years. In older dwellings, some equipment and components may need immediate replacement.

New dwellings generally are planned better for contemporary living patterns and equipment than older dwellings. New neighborhoods usually are planned with features such as curved streets, cul de sacs, open spaces, and rear yard pedestrian walkways. Older neighborhoods, on the other hand, are more likely to be laid-out on a sterile grid street pattern.

Buyers of new houses often receive more favorable mortgage financing (i.e., lower minimum downpayment, lower interest rates, longer term) than buyers of older dwellings.

Consumers moving to a new dwelling frequently have the option of selecting interior finish materials, exterior finishes, and landscaping. The new home buyer also may be able to do some of the finish work and thus save initial costs.

Finally, when moving into a new dwelling you are not purchasing or renting the problems and

mistakes from which someone is attempting to escape. With the original specifications, the buyer of the new home generally finds it much easier to determine the quality of materials and equipment than the buyer of an older home.

Type of Structure

The consumer choosing to move will find four basic types of residential structures: detached single-family houses; mobile homes; attached single family houses (e.g., townhouses); and apartments. Each type of structure, depending on state statutes, may be occupied on a fee-simple, condominium, cooperative, or leasehold basis. In addition to the comparative advantages of each form of tenure, structural type offers you another opportunity to select a housing alternative which best fulfills individual needs.

The 1970 census revealed that Minnesota's housing stock was composed of the following structural type and tenure combinations:

Table 2. Proportionate relationship between type of structure and type of tenure: Minnesota, 1970.

| Structural type | Total | Percent of structures which are: | | |
|------------------------|-------|----------------------------------|------|----------------|
| | | Fee-Simple | Rent | Condo or coop. |
| percentage | | | | |
| Detached single-family | 73 | 86 | 14 | * |
| Attached single-family | * | 38 | 61 | * |
| Mobile homes | 3 | 90 | 10 | * |
| Multi-family | 24 | 13 | 86 | 1 |
| Average | — | 62 | 37 | 1 |

*=less than one percent.

Note: Since 1970, there have been significant changes in the rate of construction for each structural type.

There have been substantial increases in the rate of mobile home and townhouse construction. With these increases, the character of the State's housing stock is becoming more varied. Thus, the consumer, especially the buyer or renter desiring to move to a new (i.e., not existing) dwelling, will discover a greater choice of structural types. There is, however, a lack of research available to aid the consumer in forming decisions about structural type. While several studies have compared single-family

dwellings with another type of residential structure, no study has compared all four structural types.

DETACHED SINGLE-FAMILY HOUSE

The single-family house is traditionally the most popular and predominant form of American housing. In a survey of consumers who seriously intend to purchase a new home in the near future, a homebuilding trade journal reported that over 90 percent preferred a single-family house. In comparison to consumers who prefer to purchase an attached dwelling (townhouse or apartment), the prospective buyer of a single-family house generally is more concerned about financial investment, privacy, and the setting to raise children. These values, while only partially supported by research, reflect the advantages attached to the single-family house.

The average resale value of single-family dwellings is usually higher than other structural types with similar features (e.g., location, age, condition, size, etc.). This is caused in part by the traditional slow growth of consumer acceptance of innovations in housing (e.g., townhouses and apartments).

Visual and acoustical privacy is less likely to be a problem in detached houses than in townhouses or apartments. While it is possible to build effective sound partitions in attached dwellings, many builders do not use these construction-design techniques.

Exterior open-space for children's play areas, gardens, and pets is usually near the single-family dwelling. Furthermore, use is seldom restricted. Normally, this is not true in mobile home parks, townhouse developments, and apartment complexes.

The owner of a single-family house also generally has more opportunities to alter the dwelling through remodeling (especially additions)

than the mobile home, townhouse, or apartment resident.

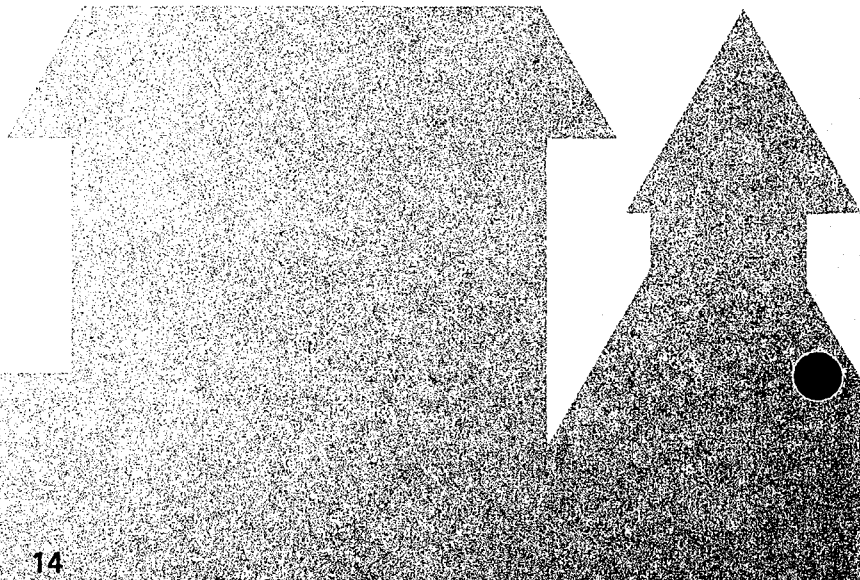
The single-family detached house has several substantial disadvantages which you should also weigh. One of the most significant disadvantages relates to costs. Land, labor, and material costs associated with construction are greater than other types of structures. Consequently, the purchase price (and therefore, to a degree, rent) is usually more expensive. Utility costs and time and energy necessary for repair and maintenance usually are more than in similar townhouses and apartments.

Furthermore a recent study indicated that single-family houses have undesirable environmental side-effects such as land sprawl, traffic congestion, and air and water pollution.

Despite these disadvantages, the detached single-family house remains an American norm strongest among families with children. A study of new housing in metropolitan areas of the United States found that significant differences exist in the characteristics of families who moved to new apartments and single-family houses.

- Single-family houses are most popular for families with children and higher incomes.
- Apartments are most popular for young single people, married couples without children, older individuals without spouses, and lower income families.

Consumers, especially without children, who do not desire to commit substantial human and financial resources may not find the detached house a desirable alternative. These are some of the reasons townhouse and mobile home construction have substantially increased.



MOBILE HOME¹⁰

Since World War II, the mobile home has been a rapidly emerging form of American housing. While mobile home construction has been seriously affected by the recession of the mid-1970's, mobile home construction has generally increased at a rate much greater than that of single-family houses and apartments. Much of this growth has been the result of three trends: smaller households; more households formed by young couples; and the inability of the housing industry to produce detached dwellings affordable by young families, single wage-earner households, and others with average incomes. Also relevant is the fact that about 10 percent of mobile home buyers in recent years have been farmers, many of whom found other housing alternatives impractical because of cost (i.e., building) or unavailability (i.e., pre-owned dwellings, townhouses, or apartments).

There is limited evidence that many younger mobile home residents view their dwellings as an interim (short-term) compromise. Viewing the mobile home as an interim compromise is similar to recognizing that apartments and townhouses often fill similar roles.

Lacking the monthly income or equity to move to a conventional single-family house, younger families may purchase a mobile home to build equity and minimize housing costs. Whether the mobile home actually offers the consumer the best alternative in either the short or long-run, is related to the consumer's personal and financial situation as well as to the following advantages and disadvantages.

The major advantage of the mobile home is that the purchase price and initial costs are substantially less than similar dwellings. For example, an average 860 square foot, 14' x 70' mobile home is sold for about \$12,000 with an average downpayment of only 10 percent. In comparison, the average conventionally financed (new) house is priced at more than \$50,000 and requires an average downpayment of approximately 25 percent. Thus the mobile home buyer encounters lower initial costs and ties up less savings.

Mobile home financing is usually much easier to arrange than mortgages for other types of

¹⁰Although mobile homes are essentially single-family detached dwellings, they are constructed to different building codes and marketed quite differently than conventional single-family houses.

structures. It is also extremely convenient to purchase and finance a mobile home, especially for younger families, since the purchase price and loan usually includes appliances and furnishings. Finally, the mobile home resident generally finds acoustical privacy is less likely to be a problem than in townhouses or apartments.

Despite these advantages, a great deal of controversy surrounds mobile homes, reflecting important disadvantages you should examine. Foremost are claims that mobile homes are more susceptible to wind and fire threats. Although evidence is not conclusive because of lack of reliable national data, the American Red Cross reports, 1.5 times more mobile homes were destroyed by windstorms¹¹ in 1972 than conventional homes although single detached houses outnumbered mobile homes 16 to 1.

Furthermore, while the average mobile home is only about 4 years old compared to more than 20 years for one and two family dwellings, the incidence of fire is only slightly less in mobile homes (1:120 annually compared to 1:95).¹¹ The severity of fire is, however, generally worse in mobile homes whether measured by dollar damage (30 to 40 percent of mobile home fires result in total destruction) or loss of life (fatalities are reportedly 4 to 10 times more likely in mobile home fires).

While there is evidence that proper tie-downs, more stringent building codes, and fire detection alarms may reduce these problems, there is no indication that safety improvements will limit fire and wind threats to the degree enjoyed by occupants of other types of residential structures. Reflecting wind and fire threats, premiums for mobile home insurance (rate to value insured) are generally 2 to 4 times greater than premiums for single-family houses.

Other financial disadvantages of mobile homes are also significant. Higher interest rates are usually charged for mobile homes (12 percent average) and the method by which interest is usually calculated ("add-on interest") penalizes

¹¹The author has examined mobile home fire and wind statistics and found:

- Nationally, between 1970 and 1974, mobile homes experienced a 7 times higher rate of wind destruction.
- In Minnesota, between 1970 and 1976, mobile homes experienced a 20 percent higher rate of fire and 90 percent higher rate of fire fatalities.

borrowers who prepay their loans. Since most mobile homes are financed on installment contracts, there is substantially less protection against foreclosure and repossession than conventional homeowners enjoy.

Mobile homes historically have depreciated in value at a rate of 20 to 25 percent the first year and 5 to 10 percent each year thereafter. Even during years of rampant inflation, mobile home owners fail to realize appreciation in their investments to the same degree other homeowners do. This situation is largely the result of the practice of treating land separately from the dwelling. *The home is usually sold on a fee-simple basis while the land is often leased from a park owner. This arrangement may also give rise to landlord-tenant conflict.*

While these financial disadvantages have an impact directly upon mobile home buyers, they also influence the costs of renting a mobile home. Weighing these advantages and disadvantages, the rationale of buying a mobile home to develop equity must be seriously questioned especially when the purchase is dependent upon installment financing. Hopefully, the financial and safety deficiencies of mobile homes will continue to improve with better building codes, increased production of double wide homes, placing mobile homes on permanent foundations, and more favorable mortgage financing.

ATTACHED SINGLE-FAMILY DWELLING

Since 1970, attached single-family dwellings (mostly townhouses) have been the fastest growing segment of Minnesota's housing market. Although attached single-family dwellings (townhouses) accounted for less than 1 percent of the dwelling units in 1970, as much as 10 percent of the new home buyers (excluding mobile homes) in the mid-1970's were expected to purchase an attached house. A townhouse is defined as a dwelling unit which shares one or more common (party) walls with adjoining units. The number of units connected in a cluster may range from the duplex or "double bungalow" to 12 or more units. As with other structural types, townhouses may be occupied on a fee-simple, condominium, cooperative, or leasehold basis.

Despite the increasing rate of construction, there is a lack of research to assist the consum-

er in evaluating townhouses. In two studies, however, it was reported that the major attractions of townhouses to buyers were the opportunity to build equity and freedom from maintenance responsibilities. One of these studies also reported that 75 percent of the townhouse residents said they would probably not move to another townhouse. This trend tends to indicate that many townhouse residents compromise the desire for a detached single-family house; perhaps because of financial and location considerations. The wisdom of selecting a townhouse will, however, depend on the consumer's personal characteristics as well as the relative advantages and disadvantages of townhouses.

The major advantage of a townhouse is that construction cost, and therefore purchase price, is potentially lower than similar detached houses. This cost savings is possible through more intense land use, shorter utility connections, use of party walls, and greater scales of economy associated with building a number of units on the same site. This advantage is, however, often reduced when builders include expensive common facilities such as parks, playgrounds, and clubhouses that substantially boost purchase prices.

When properly planned, efficient and appealing land development may occur. Land developments, including park-like and wooded natural spaces, are most likely to be found in townhouse developments with innovative site planning.

Maintenance and utility expenses are usually less than similar detached dwellings since party walls reduce exposed exterior surfaces as much as 50 percent. For this reason, the time and energy necessary for exterior maintenance and upkeep are also less than for detached dwellings.

As one study notes, townhouses are not without problems. Unless properly planned and built, visual and acoustical privacy may be adversely affected. This problem appears to be most severe in townhouse complexes with higher densities (over eight units/acre), little open spaces, party walls with inadequate sound conditioning, poorly planned parking areas, and complexes with high child and pet populations. Individual townhouse owners also may find use of exterior areas limited (e.g., paint color, landscaping, gardening, additions,

etc.) by the homeowners' association. Some former owners of detached houses also may find it difficult to adjust because of their independent psychological attachment to yard and other exterior work.

It should be emphasized that the relative advantages of a specific townhouse may vary substantially according to tenure, organization of owner's association, and quality of planning and construction.

APARTMENT

Approximately one quarter of Minnesota's housing is composed of multi-family units. During the past 35 years little significant change has been observed in the proportion of multi-family units even though construction frequently has fluctuated year-to-year. This situation suggests that apartments have and continue to fill an important consumer housing need.

As previously noted, one study has indicated that young single people and young married couples as well as older individuals and older married couples are more likely to move to a (new) apartment than a (new) detached single-family house. Families with lower incomes tend to move to an apartment rather than a single-family house. Although at face value, these factors tend to indicate that apartments are a preferred alternative for certain types of consumers, there is evidence which suggests many apartment dwellers base their selection on necessity (e.g., low income or physical inability to maintain) rather than preference.

Only about 15 percent¹² of the families moving to a (new) apartment have formerly occupied single-family houses and most of this group were either older couples or individuals. This reflects the process of aging rather than a general shift in preferences to apartments. Apartments do, however, offer significant advantages which you should examine within the context of your own situation.

The costs of building an apartment are generally less than comparable single-family dwellings. Consequently, the purchase price or monthly rent may be less as well. This savings is possible through more intense land development, shorter utility connections, use of common partitions, and greater scales of economy

associated with multi-unit construction. As with some townhouse developments, however, this cost savings potential often is reduced when builders include common amenities such as pools and party rooms.

The time required for maintenance as well as the expense of maintenance and utilities is usually less than similar detached and attached single-family houses and mobile homes. This savings is the result of reduced exterior surfaces requiring upkeep—up to 90 percent reduction. Reduced exterior exposure, however, also limits natural lighting and ventilation.

Finally, apartments are frequently the only type of housing available in many desirable locations: central cities, college campuses, scenic areas, etc. It should be noted, however, that many older apartments and older single-family houses which have been converted into apartments have been zoned into noisy, undesirable areas.

Many of the disadvantages of townhouses also may be associated with apartments: lack of visual and acoustical privacy, limitations on use of exterior areas, and restrictions on pets and children. Furthermore, apartments usually are smaller than other types of dwellings, with the possible exception of a mobile home.

SUMMARY — STRUCTURAL TYPE

Although the availability of different structural types varies substantially between communities, alternatives will continue to increase for the foreseeable future. The suitability of a specific type of housing structure is dependent upon the consumer's unique preferences, resources, and other personal characteristics. Therefore, it is critical that you seriously examine your situation as well as the relative advantages/disadvantages of detached single-family houses, mobile homes, attached single-family dwellings, and multi-family units.

FAMILY ADAPTATION

The third major form of housing adjustment is family adaptation. The frequency and importance of family adaptation is difficult to determine from research. In one study, however, it was observed that only half of the households wishing to move actually do. A large portion of these non-movers probably adapted the family to some degree.

¹²Excluding single-family dwellings that continued to be occupied by parents, other relatives, or roommates of the movers.

Whatever the case, family adaptation may be the most desirable alternative for the family who desires a housing change but cannot afford or does not desire to move or remodel. Since renters generally find it easier and less costly to move, they are less likely to choose family adaptation. Homeowners, farm families, and many small town residents are therefore more likely to find family adaptation a serious alternative since remodeling may be too costly, and suitable houses may not be available in the community at an affordable price.

Some of the more common forms of family adaptation include: postponing childbearing, encouraging older grown children and elderly parents to move, and taking in boarders to share expenses.

While research is inconclusive, it appears that many forms of family adaptation may cause social and psychological stresses greater than those encountered when moving or remodeling. Socially, family adaptation often is seen as a stopgap compromise, while moving and remodeling are generally perceived as signs of success and upward mobility.

During this period of rapid inflation and uncertain income, you should give careful thought to family adaptation. Before choosing this alternative, however, assess the impact upon all members of the household. If it appears that the family adaptation process may have an unfavorable impact, you may wish to discuss the situation with a trained social worker, housing counselor, or clergy person. Seeking such support can be extremely helpful.

SUMMARY

The importance of housing to individual and family happiness, the substantial costs of housing, the complex combination of consumer housing alternatives, and the unique desires and resources of each consumer are reasons why you should carefully weigh your housing alternatives when desiring a change.

Through this examination we have found that each housing change involves several important choices or alternatives, each with advantages and disadvantages. The consumer who is sensitive to his or her unique situation and the merits of each alternative, will be able to maximize the advantages and minimize the disadvantages.

FOR MORE HELP

Since this publication has been designed to help you evaluate comparative alternatives in housing and not intended as a "recipe-file" to plan a specific housing change, you may desire further help in making your final decisions. The following people and organizations are anxious to help.

Your county Agricultural Extension Service offers:

- short courses and other programs, depending on local requests, about home building, home remodeling, buying older houses, buying mobile homes, selling your home, etc.
- free publications . . .
 - Balancing Your Housing Needs and Resources
 - Housing Costs
 - Remodeling an Older Minnesota Home
 - Buying a Minnesota Home
 - Owner-Built Housing
 - Selecting a Mobile Home, Cost of Owning a Mobile Home, Site Selection for your Mobile Home
 - Selection Guide to Factory-Built Housing
 - The Renter's Guide
 - Plus many others about household equipment, landscaping, insulation, interior design, and so on.
- more than 200 publications about nearly all aspects of housing (for review only)

Your public library is probably the best single source of unbiased information about housing. Local social service agencies can be an excellent source of assistance, especially if you or other members of your family would like to "bounce-some-ideas-off" of a good professional listener—ideas ranging from abstract thoughts about goals and the role of housing to achieving these goals, to nitty-gritty discussion about division of household responsibility. If your community has a Housing Authority, you may wish to check to see if they provide a counseling service or referral service.

Don't overlook professionals for specific information (mortgage officers, building inspectors, material suppliers, tradespeople, contractors) as well as other consumers who have recently made a housing change you are considering.

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