

RENTING VS. OWNING

Housing is often the largest of the four major personal expenditures (housing, food, transportation, and insurance). In most spending plans, it accounts for one-third of a person's income each month. Many varieties of housing are available. The type of housing one chooses will depend on goals, values, needs, and wants. When searching for housing options, a person must decide whether to rent or purchase a place to live. Deciding whether to rent or own requires research, exploration, and priority of needs and wants.

A housing decision should be based on an analysis of one's financial status. A person may discover it is more practical to rent depending on financial resources, where the person lives, and how long he/she expects to reside in one place.

Before choosing a place to live, calculate how much can be afforded for housing expenses according to income, debts, and other expenses in one's personal budget. Research must be done to help make the decision as to whether renting or buying makes the most sense.

Reasons for Making a Housing Choice



People choose to rent or buy a home for many different reasons based upon their situation. There are many aspects to consider:

- ◆ Personal and financial goals
- ◆ Personal values, needs, and wants
- ◆ Amount of money available for housing costs;
- ◆ Financial resources and readiness
- ◆ Credit history
- ◆ Real estate prices
- ◆ Location preference
- ◆ Expected length of stay in a particular place.

Comparison of Expenses

One factor people use to decide to rent or own is the difference in expenses between the two options. Individuals have to live in a place they can afford, and although there are other factors to consider, cost is a major factor. Below is a comparison of expenses associated with each.

Renting

- ◆ Monthly rent
- ◆ Security deposit
- ◆ Utilities– electricity, water, garbage, etc.
- ◆ Renter's insurance

Owning

- ◆ Monthly mortgage payments
- ◆ Down payment (one time cost)
- ◆ Closing costs (one time cost)
- ◆ Utilities-electricity, water, and garbage
- ◆ Homeowners insurance
- ◆ Real estate property taxes
- ◆ Maintenance

Housing accounts for about one-third of a person's monthly income

Renting

Rent is the cost of using someone else's property. Examples of property choices include apartments, condos, houses, mobile homes, etc. A **tenant**, or renter, is a person who rents the property. Tenants are generally people who either cannot afford home ownership or have chosen not to purchase a home. The owner of the rental property is the **landlord**. The landlord may act as a property manager or hire an agent to perform the management duties. A **property manager's** duties may include collecting rent and deposits, paying utility bills, performing repairs and maintenance, watching over the property, responding to tenant complaints, and assigning new tenants. The property manager may charge a fee to the landlord to perform the management tasks.



Security Deposits

When moving into a new place, people are usually required to pay a security deposit and sign a lease. A **security deposit** is an advance payment to cover anything beyond normal wear and tear on the unit.

This deposit may be returned to the tenant when the unit is left in good condition.

Leases

A **lease** is a legal contract between the tenant and the landlord specifying the responsibilities and rights of both parties. Lease agreements identify the rent amount, security deposit amount and details on items such as: payment for utility bills, late payment penalties, length of lease, and eviction terms.

Why rent an apartment?

Advantages of renting include:

- ◆ Low move-in costs
- ◆ Fixed monthly expenses
- ◆ Easy to move
- ◆ Location choices (may be close to work or school)
- ◆ Less maintenance and repair
- ◆ Fewer responsibilities
- ◆ May offer extra amenities such as a tennis court or pool
- ◆ Typically less expensive than home ownership
- ◆ May be able to save for other wants or needs if renting a less expensive apartment
- ◆ Other expenses may be included in rent payment including electricity, water, sewer, and/or garbage

Disadvantages of renting include:

- ◆ Subject to terms of a lease
- ◆ Rent may change with little notice
- ◆ Less privacy and transient neighbors
- ◆ Restrictions on noise level and/or pets
- ◆ Fewer opportunities to upgrade apartment (for example new carpet, paint, or wallpaper)
- ◆ When leaving a property, no equity is returned as it would be if selling a home
- ◆ No tax deductions
- ◆ May lose rental if the property is sold



Owning

Home ownership means the buyer has purchased a housing unit as property. Home ownership protects hard-earned dollars from taxation, builds wealth, and helps to provide security in retirement. Approximately two out of three American families own the homes in which they live. Many renters would prefer to own, but cannot afford the necessary down payment or the costs of ownership. Aside from just having a place to live, owning a home is an investment. This is an investment because if a person sells a home for more than what it was bought for, that person makes money. This is called **equity**.



HOME

PURCHASING

Buying a home is expensive and few people can write a check to pay for it. Most people use a mortgage to buy their home. A **mortgage** is a home loan in which the home is the collateral. **Collateral** is an item promised to the lender if the borrower does not pay back the loan. Collateral is usually the item that was purchased with the borrowed funds. Ninety percent of buyers use a mortgage to purchase a home. The three main components to a mortgage are the *amount borrowed*, the *interest rate*, and the *length of the loan*. The amount of money borrowed for the loan depends on size of the down payment and the price of the home. The recommended purchase price an individual should pay for a home is 2 ½ times their gross annual income. A **down payment** is the amount of money paid on the home at the time of purchase. The larger the down payment, the smaller the amount borrowed and the smaller the monthly payment. A down payment is typically 10 – 20% of the purchase price of the home. The typical length of a loan is thirty years, but this may vary.

Why purchase a home?

Advantages of home ownership include:

- ◆ Build equity which can be borrowed against if necessary
- ◆ Pride of ownership
- ◆ Feel more comfortable and have more privacy
- ◆ Stable mortgage payments
- ◆ More room and storage
- ◆ Improvement of buyer's credit rating
- ◆ Income tax deductions for property taxes and mortgage interest
- ◆ Property may increase in value
- ◆ Free to make home improvements and have pets (items typically not allowed in rentals)

Disadvantages of home ownership:

- ◆ Large down payment
- ◆ Move-in costs
- ◆ Insurance costs
- ◆ Property may decrease in value
- ◆ Time, money, and energy commitment
- ◆ Repair and maintenance costs
- ◆ Property taxes can raise substantially
- ◆ Money is tied up in the home
- ◆ May take several months to sell a home if trying to relocate