in Action
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A place to live—to rent or buy

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Before a family begins to compare renting to owning a home, they should realize that such a comparison must be done carefully. There really is no way to prove *in advance* for a particular family whether owning would be cheaper than renting in the long run.

Apples to Pears

Comparing the costs of owning versus renting is difficult to do for several reasons: The investment aspect of owning (equity) means that an owner has an asset which hopefully will become more valuable over time due to appreciation, although there is no guarantee that this will occur, or that a decrease in value (depreciation) will not occur. There also are income tax benefits available to owners which are not currently available to renters.

The comparison also may be difficult since moves from rental to purchased housing often involve a "change of lifestyle" in terms of larger housing in a different location. Thus, the two products being compared are not really comparable, i.e., a furnished two-bedroom apartment in the city to an unfurnished three-bedroom house in the suburbs. Comparisons of rent vs. buy must make allowances for these differences.

Dollars and Sense Comparison

A family can do a simple step-by-step calculation to compare monthly costs for owning and renting over a specified period of time. Owners must take into account, downpayment, settlement/closing costs, move-in costs, total monthly housing cost (mortgage payments plus taxes and insurance, utilities, house service costs, etc.—see Service in Action sheet 9.910, *How to buy a house—finding one you can afford*), potential income tax savings, estimated future value, and deductions from future sale price.

Renters must consider their total monthly housing cost (rent plus utilities, renters' insurance, house service costs, etc.). An excellent publication, *Rent or Buy*, details how to do such a comparison and is available from the U.S. Government Printing Office, Consumer Information Center, Pueblo, Colo. 81009 (1974, 32 pages, most recent price, 80 cents).

Consider the Family

In making the rent or buy decision it is necessary to consider the situation of the particular family: size, stage in family life cycle, occupation and mobility, income and spending patterns, needs, wants, values, family activities and need for tax deductions. Most people who buy do so for noneconomic reasons.

Consider the Housing Market

Also very important is the housing market in the area. Perhaps there will be no choice due to lack of rentals or lack of homes in the desired price range. Short term buyers need to note the rate of appreciation in the neighborhood they have chosen. Unless it is appreciating at a very rapid rate, it may not be wise to become an owner for less than two or three years. This usually is because a significant sum has been paid in closing or settlement costs in the house sale transaction and these need to be amortized over a period of years in order not to lose money.

Rent vs. Buy Checklist

The following checklist of advantages and disadvantages of *owning* has space for you to check and rate those most important to you and to write your own observations or experiences opposite each statement.

Following the owning list, there is a corresponding list of advantages and disadvantages of *renting*. You may wish to add comments to both lists. When you have completed the comments and ratings, you will have constructed a priority list to aid in the housing decision.

Advantages and Disadvantages of Homeownership

	Observations:
___Homeownership is the accepted way of life in the U.S.—in 1970, 6.3 of 10 owned their homes. Some say that it frequently leads to financial independence, develops business judgment and skill, develops a credit rating. Equity in the home can be used as security for other loans.	
___Friends and neighborliness may develop over the longer period that ownership usually entails. U.S. owners keep their homes an average of 6-8 years before selling.	
___Ownership can be a "hedge against inflation"—when prices go up, so does the value of the house, but the payments stay the same. (Of course, it could also work on the converse, but isn't as likely.) Realize, however, that real estate taxes and homeowners' insurance rates will probably go up, but the principal and interest portion will stay the same, providing the home has not been *refinanced.*	
___Owners have the freedom to express individualism, to "be their own boss," to make improvements, etc.	

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Observations:

___There are fewer restrictions: children and pets are allowed. Within the limits of zoning and other local ordinances, as well as deed restrictions or protective covenants, you may be able to keep large animals, pursue hobbies (such as the restoration of old cars), or keep your boat or horse trailer on the premises without a garage.

___Presently, federal income tax arrangements are beneficial to owners. They may deduct from their taxable income the interest paid on their mortgage loan, real estate taxes, uninsured casualty losses, and depreciation, if any. The interest alone on a $30,000 loan for 20 years at 8% might be $2400 in the first year.

___Some states have "homestead exemptions" so that a certain portion of the value of the house (say, the first $1500 of value) is exempt from property tax.

___If you sell the house for a profit, but use the profit for a downpayment on another house within one year, you avoid paying the capital gains tax on the profit. Thus if you sell, re-buy, sell, re-buy, etc. always within the year throughout life, you can put off the capital gains tax until you are in a lower income tax bracket.

___Some states and local governments give special breaks to the elderly on capital gains taxes on real estate and/or on their real estate/property taxes.

___The neighborhood/location dictates house value more than any other factor. Although neighborhoods can decline and as a result, homes may depreciate, a house is usually a fairly "safe" investment. Even if the value doesn't increase, it may not matter if you plan to continue to live there permanently and don't need the appreciation for a future house purchase. If it doesn't appreciate, the real estate taxes will perhaps stabilize or not go up as fast.

___After 20 years, you have many maintenance and repair receipts and an asset, either all paid for or increasing in equity with each payment. Equity is like money in the bank, although you can't get it unless you sell, thus it is a *non-liquid* asset.

___A paid-off mortgage provides a "secure haven in old age." However, the maintenance and repair costs and real estate taxes could total a burden too heavy for a reduced, fixed income and limited physical capabilities. Also it may be difficult or impossible to get money from this non-liquid asset in a hurry for medical emergencies, etc.

___Maintenance and repair entail time, talent, tools, and/or money. When your heat goes off, instead of calling the landlord, you may have to call the bank for a loan to buy a new furnace.

___The homeowner pays for the many different aspects of the total monthly housing cost (i.e. utility bills, etc.) each by separate check. Home record keeping is essential.

___The homeowner may be subject to seasonal variations in heating costs, etc., resulting in the necessity for careful financial planning so that the budget can survive the simultaneous arrival of Christmas bills and the highest heating bill. A house maintenance/repair/replacement fund may be as important as the children's educational fund.

___When one has the freedom to change a house, there may be a tendency to overspend to fix up, landscape or remodel due to "house pride," and to perhaps buy better, more expensive furnishings, since this is perceived as the "permanent" home.

___Adjustments for family size changes may require the addition of a room or perhaps changing houses altogether if the house cannot be adapted.

___Owners may not be able to sell their house quickly, and sometimes not at all without a loss. A home is an investment that must be guarded.

___Owners are committed, tied down, and may be 'house-poor" if they have bought "too much house" or if income is reduced due to retirement, layoff, illness, etc. of the primary *or* secondary wage earner.

___Some people do not wish to accept the responsibilities of homeownership and the community participation it requires.

___Private single-family homes are increasingly becoming security challenges, particularly when located in isolated or sheltered areas or areas where burglary rates are high.

___Other advantages and disadvantages of homeownership that you can add:

Observations:

Advantages and Disadvantages of Renting

___**Renters are freer to move**, although you must pay moving expenses each time. One is psychologically free. No financial investment to guard; can perhaps move on short notice if no lease, or perhaps sublet.

___It is easier to adjust to family size changes. New and better housing can be obtained after a search and giving notice to a landlord or completing a lease term.

___Physical freedom from maintenance cares and/or costs, unless these responsibilities are part of the rental agreement. When your heat goes off, you call the landlord and hope that something is done soon and without an increase in the rent.

___You *may* be able to limit family spending on furnishings and fixing up because you either may not care to do so or you may be prohibited from making improvements to the property.

___Financial planning may be easier because more "control" over housing expenses may be possible. Rent costs usually are more fixed and clearer than those in ownership. Rent may include heat, lights, trash removal, gas and the only bills that must be paid separately are for telephone, renters' insurance, etc.

___The fixed cost aspect may provide the opportunity to achieve a regular savings program.

___Renters don't presently get the income tax deductions associated with property ownership, although they do pay real estate taxes indirectly through their rent payments.

Observations:

___There is no need to be concerned about property values. If they go down or the neighborhood declines, renters are "free" to move or they may get a reduced or at least stabilized rent. They don't risk financial loss.

___Prices go up, so do rents, although you may temporarily be protected by a lease, or in a "soft" rental market with many vacancies the landlord may offer incentives to rent "below market rates."

___Although income may decrease with retirement and old age, rent payments don't decrease unless one moves into subsidized housing.

___Renters may experience varying degrees of control over their lifestyles due to rental rules and regulations and the fact that they don't own the unit they occupy. Renters in multifamily structures must adapt to aspects of communal living, i.e; noise, privacy, sense of place, etc.

___Renters are considered "second-class citizens" in some places by some people. In some communities, they can't vote on bond issues or other issues. The attitude toward "social sludge" is often reflected in "zoning out" multifamily housing or in locating it in the least desirable locations.

___After 20 years, the renter has many rent receipts, but perhaps a healthy savings account instead of the non-liquid house asset.

___Other advantages and disadvantages of renting that you can add:

Observations:

Renter's Checklist

If you check most of the statements below, renting may be your best alternative.

___We cannot estimate our future housing needs.

___We do not have enough money for a downpayment, closing costs, and other initial homebuying expenses or an adequate income to afford the total monthly housing costs.

___Our income fluctuates, our occupation involves mobility or is unstable, or we are thinking of changing jobs or locations.

___We cannot find housing for sale that is both decent and within our income range—we can find better housing in rentals than sales in our price range.

___We prefer to spend our money on other things.

___The neighborhoods or communities in our price range are marginal, starting to decline.

___We want to become familiar with our new community before investing in a home here.

___We do not want the responsibilities of homeownership.

Owner's Checklist

Assuming that you have the funds for a downpayment, closing and move-in costs, an adequate income to accommodate total monthly housing costs, have realistically estimated future family housing needs, and know where you want to live, *doublecheck* your readiness to become an owner, now. Do most of these statements apply to your situation?

___Our income is relatively stable now and expected to remain so (not subject to strikes, layoffs, seasonal variations).

___Our income is expected to rise to cover the inflationary increases in other areas of our budget without making it hard to pay total monthly housing costs.

___We can completely pay off the house before retirement to a fixed, limited income.

___We have paid off our major temporary financial commitments (i.e; schooling, uninsured major medical expenses) so that our house-buying capability is now as high as possible.

___We either do not plan or are prepared for future major financial commitments (temporary or otherwise, i.e; birth of a child).
___We have "collected" enough home furnishings and household equipment to minimize the added expense to furnish and equip a "bare" home.
___The only housing that fits our basic needs and desires is available for sale and not for rent—not even under special arrangements.
___Our future family size changes (additions or departures) will not significantly affect the size and type of house we plan to purchase.
___There are genuine good buys in housing that closely meets our needs available now due to forced/fast sales caused by transfers, bankruptcies or foreclosures, which are not likely to be there at a later date.
___Market conditions are favorable now for materials, labor, construction costs, price, *and* financing (both interim and permanent) for homes.
___The possibilities for apreciation of the property, plus the property tax picture are favorable as we look to the future.
___We are now ready and able to "put roots down" in a house for *at least* 2-3 years so that we can build equity to use as a downpayment on a later house and not lose money on the closing costs paid initially. (If local appreciation is high, the minimum time requirement to "break even" on a house may be less than 2-3 years.)
___We are ready now for the responsibilities that homeownership entails and prefer to have the bulk of our savings invested in a house.
___We have no lease or other housing commitment now that might suggest careful timing of the house purchase.