Tangible Solutions

Financial Information to Meet Your Needs

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Owning vs. Renting – Which is Better?

There is no easy, simple answer. At some point in our lives most of us will consider purchasing a house. Each situation is somewhat different, and will be based upon your values and goals, as well as your financial condition. There are a lot of emotional issues with home ownership, such as pride, stability, and investment. Or perhaps you are about to divorce and want to figure out whether or not it is worth it to keep the house, or sell it and rent. Here are some issues to consider:

Emotional Reasons for Owning a House:
- Stability (staying in the same place for a while)
- Fixed mortgage costs (assumes fixed-interest rate) vs. rent going up annually
- American Dream of ownership
- In a divorce it provides for comfort/familiarity, same friends, neighbors, school.

Financial Perks of Owning a Home:
- Deductibility of mortgage interest and property taxes
- Possibility of appreciation in value (and if married $500,000 of "profit" is exempt from Capital Gains Tax).
- Forces you to save (paying towards increased equity in the house).

Disadvantages of Home Ownership:
- Costs of purchase/financing, as well as 8%+ selling costs when time comes to leave
- Value may go down, and equity earned is "trapped" as you have no access to it without a Line of Credit…
- Lack of flexibility in case you need to move (change of job, better school, downsize, or need bigger house)
- Need for capital (money) to make needed repairs or replacement of roof, furnace, hot water heater, appliances, carpeting, flooring, etc., in addition to the cost of hiring someone to make repairs you can't make yourself.
- Costs for upkeep – clean roof, gutters, seal driveway, mow grass, water, weed, shovel snow, minor repairs, etc.
- Utilities generally cost more – water for outside, bigger places cost more to heat/light, not as much insulation (apartments have units next to/above/below to protect from outside walls)…
- Homeowners insurance is more expensive than renters insurance (because you have to insure the value of the house) plus liability protection is needed if someone is hurt on your property

Advantages of Renting:
- Costs less than owning comparable size when taking into account property taxes, homeowners insurance, maintenance, and repairs, etc.
- Flexibility if need to move for work or school, or need to downsize (or upsize), or if you just don't like it because of neighbors, schools, etc.
- Landlord is responsible for property taxes, liability and property insurance, repairs and replacement of systems (roof, furnace, appliances, carpeting, etc.), maintenance costs, yard work, watering, etc.
- Utilities are usually less as you get less space (rooms are smaller) and the adjoining units add insulation to yours.
- No closing costs.

Disadvantages of Renting:
- Possible annual rent increases.
- No ability to gain any equity in the raising value of property.
- No control over neighbors and their annoyances

Please see Cost comparison – on back…

Ownership	Annual Cost Category	Renting
$ 6,000	mortgage principle	$ -
$ 18,000	mortgage interest	$ -
$ -	rent	$ 19,200
$ 5,000	property taxes	$ -
$ 1,000	homeowners/renters insurance	$ 150
$ 2,800	utilities (heat, electricity, water, sewer, garbage	$ 1,800
$ 1,000	purchase/replace appliances, carpeting, roof	$ -
$ 1,000	repair and maintenance	$ -
$ 500	yard care	$ -
$ 150	pest control	$ -
$ (5,750)	tax break (assumes 25% tax bracket)	$ -
$ 29,700	(does not include closing costs)	**$ 21,150**

Notes:

Based upon borrowing $350,000 for a $400,000 house (2400 sf)
5% interest, .5% PMI, 30 yr., closing costs of approx. $5000; mort $2000+/mo.
Rent is for 3 bedroom apt, 1800 sf, $1600/mo.
Repair and maintenance: clean roof/gutters, seal driveway ~5 yrs, paint ~8 yrs, etc.

Mortgage: Most are at a fixed interest rate, and spread out over 30 years – the longer the term the less the monthly amount, although over that term you are paying more in interest than the house cost you. Mortgage is comprised of principle (equity) and interest payments. Interest costs are much higher in the beginning then start to decline, and the principle gradually increases so that you are always paying the same amount each month. Most homeowners never stay in a house that long – the average length is 7 years.

Property Taxes: Generally the rate is about 1.25% of the assessed value of your house. Included in property taxes are school and other levies, water conservation fees, fire protection fees, etc. For a renter this would be included in the rent.

Insurance Costs: Homeowners insurance depends upon the value of your house, the type of construction, size and age, and desired deductible amount. (And if you live in a flood plain you might need flood insurance as well.) More importantly, it usually includes liability protection in case someone gets hurt on your property. Typically homeowners insurance costs about $1000/year. Renters' Insurance only covers the possessions of the tenant. If there were a fire, your possessions would be covered (well, depending upon whether you have replacement value or actual cash value – the depreciated value after wear and tear are deducted). Renters' Insurance typically costs $150-$200/year.

Utilities: Heating an lighting a house are usually more expensive as you have more square feet (apartments/condos have fewer, and smaller rooms, plus have other units acting as insulation from outside walls). In addition, there are bills for water, sewer and garbage, which are usually included in rent, and you won't be using as much water as you don't need to water lawn/garden.

Repairs and Maintenance: Renters don't usually need to worry as the landlord is responsible for these costs. However homeowners are responsible for mowing (purchasing and maintaining a mower, or hiring a yard service) and watering the lawn, weeding and yardwork (and paying for yard waste), cleaning the roof and gutters, sealing the driveway, painting the house (inside and out), pest management, sealing the deck, etc. And that's not including repairing the things in a house that get broken or damaged, from lights to wallboard to faucets, windows, etc.

Replacing Systems: This is potentially a big ticket. At some point the roof will have to replaced, and the furnace, hot water heater, carpeting, all of your appliances, etc. These items are not cheap. You need to have the capital (money) to pay for them or you can put them on your credit card (or get a home line of credit) to pay for them, plus the interest charged. (Please refer the newsletter on "***Expected Life of Household Systems***".)

Alterations/Remodels: Living in a house may provide you with the opportunity/excuse to add or alter, maybe a deck or patio, convert a bedroom to an office (or vice versa), add a ceiling fan, resurface a floor, upgrade countertops, and so on. You wouldn't be tempted if you rented, but living in a space you own provides the impetus to improve it. And even if your labor is free, the materials can be costly.