

RENT vs. BUY

It's better to buy a home than to rent one in most cases. But not in every case. Comparing buying to renting is actually a fairly complicated endeavor. However, there are a few easy guidelines you can use to aid you in your decision. Buying a home is usually more beneficial than renting except when:

- You intend to move within a few years
- Your rent is very low
- You don't expect to live more than another 15 years
- You want to build equity vs. "throwing your money away"

Building equity vs. "throwing your money away"

Although it's often said that by owning a home, you're not "throwing your money away on rent." This may be true, but when you buy a home you will still throw money away on things that don't build any equity. These include:

- Closing costs
- Interest on your mortgage
- Property taxes
- Property Insurance
- Private Mortgage Insurance (if your down payment is less than 20%)
- Maintenance

In fact, these "throwaway" expenses are more than you'd likely spend on rent. If the only financial advantage to buying a home were building equity, it wouldn't be enough to offset these expenses, and it would be better to rent. The reason that buying is usually better than renting is not because you avoid throwing money away, it's because:

- You lock in your monthly payment for 15 or 30 years. (If you kept renting you'd pay more each year.)
- Your house gets more valuable over time.

Freezing your monthly payments is where the real benefit is. Were it not for this, for many people it would make more sense to rent. This is the gem that makes home buying worthwhile. There are a couple of other advantages to buying:

- You can stop making payments when the loan is paid off. This is a big advantage, but it doesn't get your costs down to zero. You will still pay for taxes, insurance, and maintenance even after your loan is paid off. On a home worth \$180,000 that could be around \$525/mo. Sure, that's better than the \$1000/mo. you could be spending on rent, but it's not free.
- You can deduct mortgage interest on your income taxes. For most people this advantage is pretty small, but you can certainly calculate it in your own analysis if you want to be complete.