

Buying Versus Renting - Key Considerations



The chart below weighs the pros and cons of buying versus renting a home

- The main advantage to home ownership is the opportunity to build equity in the property over time, benefit from any increase in property value and to eventually pay-off your mortgage and eliminate your housing expense
- The main disadvantage of home ownership is the required down payment, the potential long-term financial commitment of making a mortgage payment and potential loss of money in the event of a decrease in property value or foreclosure



On the following page we perform a financial comparison of buying versus renting



You can also use our [BUY VERSUS RENT COMPARISON CALCULATOR](#) for a financial analysis of the trade-offs

| | Buy | Rent |
|------|--|---|
| Pros | Pride of ownership | Limited financial obligation – you do not have to pay back a mortgage |
| | Build equity and realize any increase in property value | Requires deposit but no down payment |
| | Mortgage interest income tax deduction | Reduces the chance you will mess up your credit score |
| | Do not have to deal with landlord | Shorter time commitment and potentially more financial flexibility |
| | Potentially fixed mortgage payment for 30 years | Limited responsibility for maintenance and repair |
| | Free to decorate the property as you wish | Less concerned about changes in property value |
| | Pay off your mortgage and then start paying yourself – check out our FREEandCLEAR Mortgage Acceleration Strategy discussion to learn more about this | |
| Cons | Typically requires down payment | No opportunity to build equity |
| | Potential loss of equity / down payment in the event of foreclosure or a decline in property value | No mortgage interest income tax deduction |
| | Potential long-term responsibility to make mortgage payment | Rent Increases |
| | You are responsible for repairs or maintenance | Dealing with landlords |
| | Costs not associated with renting such as property tax, homeowners insurance and potentially homeowners association fees and other housing expenses | Restrictions on decorating or changing property |
| | | Risk of eviction |
| | | You do not benefit if property values increase |

Buying Versus Renting: The Financial Analysis



In many cases when analyzed over a short period of time – one-to-two years – renting a home can save a person money on a monthly basis when compared to buying a home



However, when you factor in increases in rent over time as compared to a fixed mortgage payment, as well as the interest income tax deduction, buying a home can make more sense financially and save a person money on a monthly basis when compared to renting



The chart below illustrates how buying a home compares to renting a home over several years

- Initially, renting is less expensive than buying but when you factor in rent increases, by the second year the monthly mortgage payment is less than the monthly rental payment
- By year three, total monthly housing expense, which includes property taxes and insurance, is less expensive than renting when you factor in the interest expense income tax deduction

| Year | Monthly Rent Payment | Monthly Mortgage Payment | Monthly Difference Between Rent and Mortgage Payment | Annual Difference Between Rent and Mortgage Payment | Monthly Property Tax and Insurance | Total Monthly Housing Expense (MHE) | Monthly Difference Between Rent and MHE | Annual Difference Between Rent and MHE | Monthly Tax Deduction Benefit | MHE Less Tax Deduction Benefit | Monthly Difference Between Rent and MHE + Tax Benefit | Annual Difference Between Rent and MHE + Tax Benefit |
|------|----------------------|--------------------------|--|---|------------------------------------|-------------------------------------|---|--|-------------------------------|--------------------------------|---|--|
| 1 | \$1,800 | \$1,820 | (\$20) | (\$240) | \$480 | \$2,300 | (\$500) | (\$6,000) | \$330 | \$1,970 | (\$170) | (\$2,040) |
| 2 | 1,890 | 1,820 | 70 | 840 | 480 | 2,300 | (410) | (4,920) | 325 | 1,975 | (85) | (1,015) |
| 3 | 1,985 | 1,820 | 165 | 1,974 | 480 | 2,300 | (316) | (3,786) | 321 | 1,979 | 5 | 65 |
| 4 | 2,084 | 1,820 | 264 | 3,165 | 480 | 2,300 | (216) | (2,595) | 316 | 1,984 | 100 | 1,202 |
| 5 | 2,188 | 1,820 | 368 | 4,415 | 480 | 2,300 | (112) | (1,345) | 312 | 1,988 | 200 | 2,399 |
| 6 | 2,297 | 1,820 | 477 | 5,728 | 480 | 2,300 | (3) | (32) | 308 | 1,992 | 305 | 3,660 |
| 7 | 2,412 | 1,820 | 592 | 7,106 | 480 | 2,300 | 112 | 1,346 | 303 | 1,997 | 416 | 4,987 |
| 8 | 2,533 | 1,820 | 713 | 8,553 | 480 | 2,300 | 233 | 2,793 | 299 | 2,001 | 532 | 6,384 |
| 9 | 2,659 | 1,820 | 839 | 10,073 | 480 | 2,300 | 359 | 4,313 | 295 | 2,005 | 654 | 7,854 |
| 10 | 2,792 | 1,820 | 972 | 11,669 | 480 | 2,300 | 492 | 5,909 | 291 | 2,009 | 783 | 9,400 |

| | | | | | | | | | | | |
|------------------------------------|--|--|--|--|---|---|---|--|--|--|--|
| Monthly rent increases 5% per year | Reflects \$380,000 fixed rate mortgage with 4% interest rate | Difference between monthly rent payment and mortgage payment | Difference between rent and mortgage payment over the course of the year | Monthly housing expenses that renters do not have to pay | Mortgage payment plus property taxes and homeowners insurance | Difference between monthly rent and total monthly housing expense | Difference between rent and total monthly housing expense over the course of the year | Monthly benefit from interest expense income tax deduction. Declines slightly over time as interest expense declines | Monthly housing expense less tax deduction benefit | Difference Between Rent and monthly housing expense less tax deduction benefit | Difference between monthly rent and monthly housing expense less tax deduction benefit over the course of the year |
|------------------------------------|--|--|--|--|---|---|---|--|--|--|--|