Renting Vs Buyng A Home Essay, Research Paper

INTRODUCTION

BACKGROUND

Should I sign another lease or take the plunge and buy a place I can really call home? This is a question that millions of Americans ask themselves everyday. This question is also an important one for me, as I am currently trying to make this decision. To answer this question consumers need to consider a few factors. A couple of these factors that need to be considered are their lifestyles and financial situations. According to the 1990 United States Census, there are approximately three million people in the state of Texas that live in owner-occupied housing and slightly over two million that live in renter-occupied housing. There are numerous reasons that people may choose to rent over actually buying a home. Making a choice between renting and buying is made easier in this day and age, due to the amount of information that is available on the World Wide Web. I have done a great amount of research through the use of the Internet while working on this report. There is an unbelievable amount of information on purchasing a home. The following is some information that is available to help with the home buying decision: Step-by-step instructions on the home buying process, mortgage calculator (helps to compare cost of buying vs. renting), on-line loan applications, on-line mortgage companies, on-line Fannie-Mae forms, on-line real estate companies. Through the use of the Internet the home buying choice and the actual home buying process is made much easier. A consumer can actually apply for a home loan, obtain pre-approval, and buy a house on the Internet. In addition to the amount of research gathered on the Internet, two interviews were conducted. The first interview was conducted with a real-estate agent. This real estate agent was able to provide some helpful information from a different perspective. The second interview was with a personal friend who has been on both sides of the avenues, renting and buying.

PROBLEM

Buying versus renting a home is a big decision that consumers must make at some point in their lives. Millions of Americans are faced with this decision everyday. There are advantages and disadvantages to renting and buying a home. Before making this decision consumers must first look at their individual situation, they then must examine their short-term goals, and then finally their long term goals. This report will hopefully help in making this decision easier.

PURPOSE OF REPORT

The purpose of this report is to discuss the advantages and disadvantages that consumers have renting versus buying a home. This information will make it easier for consumers to make this all-important decision.

DISCUSSION

THE PROS AND CONS OF RENTING VS BUYING A HOME

“Buying a house is often the single largest investment that many individuals make, but the decision to buy a house requires balancing investment issues with emotional/personal ones” (”Buying versus Renting: Investment Decisions”, 1). Renting is usually better than buying in the short term (0-5 years). Buying a house can make economic sense compared to renting over the long-term.

If you are considering buying a home, one of the first decisions you need to make is whether buying a house instead of renting one is the right direction for you. One of the first steps is to consider the cost of buying versus renting. “A general rule of thumb is that if you expect to stay in a new house for seven years, you’ll be better off buying” (Rowland, 1). The next questions to ask yourself is what can you afford to pay for your first home, and how much of a down payment can you pay? The best way to figure out much house you can afford is to use the calculators available on the Internet.

After answering the above questions, potential homebuyers should then look at the pros and cons of renting vs. buying a home. The following is a list of some of the advantages and disadvantages to renting vs. buying a home.

Advantages of renting a home

Renting a home provides more flexibility than owning a home. When the lease is up, you have the freedom to move. Someone who is renting does not have the risk of losing equity (”Renting or Buying: Advantages and Disadvantages”, 1). There is generally less work and less cost for the renter in maintaining a home or an apartment. The landlord, or owner of the property generally pays for this cost. The renter has fewer amounts of “up-front” cash that they must provide before moving in.

Disadvantages of renting a home

Renting a home does not provide tax advantages to the renter. Any and all tax advantages go to the landlord or property owner. Renting a home limits the renter the ability to personalize his or her home or apartment. No matter what happens with the value of the home, the renter will never gain equity. The landlord will gain any and all equity.

Advantages of buying a home

There are tax advantages that can be attached to home ownership (”Renting or Buying: Advantages and Disadvantages”, 1). Mortgage interests and property taxes are tax deductible. Your ability to remodel and redecorate the home to match your needs and desires. “Over time, the mortgage balance decreases and equity builds, even if the value of the home does not increase” (”Renting or Buying: Advantages and Disadvantages”, 1). Another advantage to home buying is the security; the feeling of having a place to call home that is yours.

Disadvantages of buying a home

Homeowners have less flexibility. If the homeowner wants to move, then generally the home must be sold. The homeowner pays all maintenance costs for the home. There are higher variable costs involved in owning a home (”Renting or Buying: Advantages and Disadvantages”, 1). Equity may go down, or remain the same. There are generally larger up front costs involved in buying a home.

Comparisons between renting and buying

The following graphs will depict the differences in cost between renting vs. Buying:

FIGURE 1: Total Cost at Loan Payoff or Home Sale

Source: www.austin360.com/features/calculators/national/home\_finance/home10.html

FIGURE 2: Total Cost at Various Appreciation Rates

Source: www.calcbuilder.com/fc\_calcs/images/calc\_buttons/results\_tab.gif

Factors to consider when making the decision to buy or rent

“Buying a house, will it break the bank or save you money” (Brodrick, 1)? Choosing between renting and buying often is a question on money. The following are some factors that need to be considered: The short-term financial advantage, the long-term financial advantage, credit barriers, and flexibility values.

? Renting a home is an advantage of short-term financially. “Buying is more expensive in the beginning” (Brodrick, 1). Renters have no need for a reserve fund, for those unexpected repair costs. The homeowners usually pick up these costs.

? Owning a home usually has long-term advantages financially. “Owning a house is a good investment, whereas with renting, you’re waving bye-bye to your money each month” (Brodrick, 1). A homeowner’s monthly payment usually stays the same each month (refer to Figure 3). A renter’s monthly payment usually increases with time.

? Credit considerations are an advantage to the renter. The better your credit rating, the easier it will be to buy. With some consumers who have a negative credit rating, renting is the only option.

? Values should be considered when making a home buying decision. “Consider what a home means to you and your family. Consider the importance of privacy, community, and prestige to your family” (Brodrick, 1).

CONCLUSION

There isn’t much doubt that for most people, owning a home is better over the long term than renting. Since Owning a home is the “American dream”, most people assume that it is to their advantage. Owning a home is usually one of the most important investment decisions that people make. Due to the importance of this decision, consumers should decide if it is the right decision for them and their family. Potential homebuyers should look at their short tem vs. long-term goals. “Home ownership is a highly leveraged investment that can yield substantial profit on a nominal front-end investment. However, such return depends on home price appreciation” (”What makes more sense, buying or renting?”, 1). Home ownership offers tax benefits as well as freedom to make decisions about your home.

In conclusion, it is my opinion that the advantages to buying a home are far stronger than the disadvantages. This has been a personal dilemma for some years now. I have been renting for 12 years. I have come to the conclusion that I will use all of the resources available to me, through the use of the Internet to start working on fulfilling my “American Dream”, on purchasing my dream house.

FIGURE 3: The amount you can borrow, based upon various down payments

A CONSERVATIVE ESTIMATE

5% Down 10% Down 20% Down 25% Down

Down Payment Amount $4,599 $9,973 $23,509 $31,345

Loan Amount $87,386 $89,754 $94,036 $94,036

Price of Home $91,986 $99,727 $117,545 $125,381

Your Future Monthly Payment

Principal & Interest $641 $659 $690 $690

Taxes & Insurance $350 $350 $350 $350

Mortgage Insurance $49 $31 $0 $0

Total Monthly Payment $1040 $1040 $1040 $1040

Source: www.austin360.com/features/calculators/national/home\_finance/hom1.html

FIGURE 4: Regarding Ownership for the 7 years

Total Tax Savings $23,572

Total Maintenance $4,900

Selling Price $154,169

Equity Upon Sale $63,022

Selling Costs $15,417

Total Payments

Renting Owning

Principal and Interest NA $665

Taxes and Insurance NA $217

Mortgage Insurance NA $0

Total Monthly Payments $715 $882

Source: www.austin360.com/features/calculators/national/home\_finance/hom10.html

Ables, Gregory. Homebuyer. Personal Interview. 25 Feb. 2000.

“Am I better off Renting.” N.d. (05 March 2000).

Brodrick, Cynthia. “Renting VS Buying: Which is the Better Value.” N.d. Cox Interactive Media. (2 March 2000).

“Buying versus Renting: Investment Decisions.” N.d. (30 Jan. 2000).

“Housing Characteristics for Texas.” 1990 US Census. (02 April 2000).

Mincy, Jeff. “Real Estate – Renting versus Buying a Home.” N.d. (30 Jan. 2000).

“Renting or Buying: Advantages and Disadvantages.” N.d. http://www.ourfamilyplace.com/homebuyer/buyorrent.html > (05 March 2000).

Rowland, Mary. “Money: Can you afford?? A Home of your Own.” NEA Today. March 1999. (31 Jan. 2000).

“What makes more sense, buying or renting?” n.d. (31Jan. 2000)

Woodworth, Pamela. Real Estate Agent. Re/max. Personal Interview. 01 Feb. 2000.