



Should You Rent or Buy?



THE STATE OF THE RENTAL MARKET

Although homeownership remains the American dream, there's still a high demand for rentals in many parts of the country. Historically, renting has been considered a cheaper alternative to buying, but this may no longer be the case. With demand so high and inventory so low, there has been a nationwide escalation in rental pricing, and this is not expected to change anytime soon. As the real estate market continues to shift and interest rates fluctuate, now may be a good time to weigh your options. Use this guide as a compass to help you navigate the upsides and other important factors of renting or buying.





QUESTIONS TO ASK YOURSELF

Whether you've been renting for a long time and want to get out of the rental cycle, are financially able to purchase your first home, or simply want a shift in lifestyle, you'll want to ask yourself the following questions to help you establish what's best for you.

- Is your long-term goal to build financial security through homeownership?
- Are you tired of being in the rent cycle and looking for more financial stability?
- Are your monthly rent costs increasing, making your financial wellness less predictable?
- Are you ready or close to being able to put a down payment on a home?
- Are you able to afford the monthly costs and maintenance of homeownership?
- Do you anticipate staying in your home for at least five to seven years?
- Are you an empty nester and want to downsize?

THE BENEFITS OF BUYING

Build equity

As you pay down your mortgage, the amount of equity in your home increases. Did you know that once you build some equity in your home, you can borrow this money with no restrictions on how you use the funds? And when it's time to sell, you'll likely have enough equity in your home to positively impact your financial security, making homeownership a good long-term investment.

Tax benefit

The tax benefits of homeownership can be quite advantageous. That's because you can deduct items like your property taxes, the interest paid on your loan, and your mortgage insurance (if required), which can ultimately lower your taxable income. Some cities and states limit the monetary amount of allowable tax deductions, so be sure to research potential restrictions.

Emotional stability

Are you ready to have a place that you can call your own? Homeownership tends to be a stabilizing factor, especially as you're likely committing to live in your home for several years (typically seven years or more). It's an opportunity to establish roots for your family, select a school system where your children can grow and flourish, feel connected to a community and build lifelong friendships, and experience the satisfaction that comes with the pride of ownership.

Financial stability

If you purchase your home with a long-term fixed-rate mortgage, you can gain some financial stability knowing that your monthly mortgage payment will remain the same over the life of the loan.

Flexibility

Owning a home means you are in the driver's seat and there's no landlord dictating what you can and cannot do. You can make your own choices for how you want to decorate, renovate, and maintain your home.

OTHER FACTORS OF BUYING

Market pricing and affordability

Where you live may well determine if you can afford to buy or need to continue renting. And if interest rates or home prices are on the rise, it may take a little longer to become a homeowner.

Homeowners association (HOA) fees

Many communities have HOA fees, some of which can be expensive and restrictive. In addition to the monthly fees, there could be a special assessment added to your HOA bill at some point in the future. They can include costs for community pool repairs, clubhouse renovations, roof replacement, or even neighborhood street paving.

Taxes and ancillary costs

Unlike renting, where these costs are typically absorbed by the landlord, as a homeowner you can expect to pay property taxes as well as other ancillary costs, such as trash removal, sewer, water, and all other utilities.



THE BENEFITS OF RENTING

Affordability

Up-front costs for renting are typically minimal—first and last month's rent and the security deposit. However, purchasing a home comes with a lot of fees, and it may be difficult to acquire the necessary funds. The good news is renting can give you more time to save for your down payment, comfortably positioning yourself to become a homeowner.

No long-term commitment

If you're planning to move to a new area and want to familiarize yourself with the different neighborhoods before settling down, renting in the short term may be a perfect solution. Renting may also be best if you don't expect to be in your home for more than five years, you prefer to move around and don't like being held to a long-term lease, or you are subject to frequent job transfers.

Empty nester phase of life

If you've recently sold your home with downsizing in mind, you may opt to rent for a while before deciding on your next long-term move. Perhaps a turnkey home would be best, allowing you to come and go as you please without the worry and responsibility of home maintenance and repair. You may even want to secure a long-term rental if you no longer want the cost and responsibility of owning your own home.



OTHER FACTORS OF RENTING

Financial limitations

On the surface, renting can seem like a better, cheaper option. However, renting can limit your financial opportunities. As a renter, you aren't able to build equity through homeownership, which has generally shown to be a good long-term investment. Instead, it's your landlord who gets to reap the equity benefits that come from rental income. In addition, renting prevents you from taking advantage of the tax benefits that come with being a homeowner.

Rent increases

Rental costs will inevitably continue to escalate each year. What happens if you can no longer afford the increase in rent and need to move? Historically, mortgage payments have been higher than the cost of the rent. However, as the housing market continues to shift, so has the rental market. Mortgage payments are more stable than rent payments, making your monthly expenses more predictable.

Repairs and maintenance challenges

Does your landlord properly maintain the property? When renting, you don't have control over how and when things are maintained,

repaired, or replaced. If you have an unresponsive landlord, it will likely result in a delay before your issues are addressed.

No permanence

If you have a family and would like to establish stability, renting can make it difficult to have a sense of permanence. There's always a risk that your lease will not be renewed, especially if you're leasing from a private landlord.

Lack of flexibility

As a tenant, you'll have to stick to the rules and limitations that your landlord has imposed. For example, if you want to paint your walls, hang pictures, or add a TV wall mount, you'll need your landlord's permission to do so. It's also unlikely they'll allow you to construct or renovate your rental property.

Other limitations

Your landlord has the right to enforce restrictions, such as prohibiting a truck or a commercial vehicle from being parked on the property, having limited or permitted parking, making it difficult for your visiting guests, or imposing very specific requirements for pets. And if pets are allowed, there may be a monthly or up-front fee.

PROS AND CONS LIST

Jot down your personal benefits and drawbacks of homeownership here to help you prepare to meet with a real estate agent.

Pros:

Cons:



CONCLUSION

The decision to rent or buy can be a complicated one. Because there are so many factors to consider, it's best to consult with a real estate agent who can help you identify your strengths and weaknesses as a buyer and, most importantly, help you overcome any challenges to better position yourself to purchase a home.

