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RENTING VS. BUYING A HOME: WHICH IS SMARTER?

It depends on a lot of things, from your financial health to your gut feelings on the matter.

By: Geoff Williams - May 17, 2021

Is it better to rent or buy a house? At some point, the question comes up in everyone's life. Even a lifetime renter who loves apartment living probably has had a few internal struggles over whether it would be wiser to buy a home versus continue renting.

What's the right answer? The good news is that the answer is up to you. The bad news is that it's easy to imagine yourself looking back and wishing you hadn't spent so many years as a renter, or that you hadn't bought your house – or perhaps that you'd done so at a different time in your life. So to avoid financial frustrations later, try to figure out as soon as possible whether you think it's smarter to rent or buy a home.

As you mull it over, you really should ask yourself a series of questions first.

Can I Afford to Own a House?

It's easy to think, "yes, absolutely," if you're only considering your mortgage payment. But there are a lot of housing costs beyond the mortgage.

"When you rent, you pay the rent only. No property taxes, no HOA fees, no checks to the landscapers for lawn mowing, snow plowing and the spring and fall cleanups. It's one and done. You pay for utilities, but that's about it," says Cheryl Costa, a certified financial planner in Boston. "And if something breaks, you call the maintenance folks, and it is fixed in a day."

Maintenance costs for a house can be a lot. Someday your roof will wear out, and insurance policies don't pay for general wear and tear. You'll also spend money to mow the lawn, either by hiring a service or buying a mower. At various times, you may need to hire a plumber, a heating or cooling service and maybe an exterminator.

Of course, that's a good argument for buying a condominium, if you want something between buying and renting. With a condo, you own the property, but the condo association (which you pay dues to) is responsible for making sure the lawn is mowed and often making sure indoor repairs are taken care of such as plumbing.

"Before buying, I suggest taking a brutally hard look at your spending," Costa says. "Too many people buy a house and fail to appreciate all the ancillary costs. When we bought our first house, we used nearly everything we had saved on the down payment, and when the grass started growing in the spring, we realized that we hadn't budgeted for a lawn mower. You don't have those problems in a rental."

How Are My Finances?

It's almost the same question as "Can I afford to own a house?" Still, you have to think beyond how many housing expenses there are and ask yourself whether a mortgage lender is likely to give you good terms on a loan for a home. After all, the better the interest rate you can get, the less pricey your mortgage payment is going to be.

"The most important step that you should take before leaping headfirst is to evaluate your current debt-to-income ratio, savings and assets," says Ryan Cicchelli, founder of Generations Insurance & Financial Services in Cadillac, Michigan.

If you don't do it, a mortgage company will, Cicchelli adds. So analyze your finances first before getting too serious about house hunting.

"If you do not have a reasonable understanding of your financial position before pursuing a loan, then you are going to have a less-than-ideal experience," Cicchelli says.

Brandon Ashton, director at Cornerstone Financial Services, in Southfield, Michigan, is a little more blunt: "If your credit report is a mess, then you are probably not ready to purchase a home," he says.

He points out that if a house is listed at a good price, that's immaterial compared to your own finances. "Mortgage rates and home values mean absolutely nothing if you don't have the savings or income to afford such a purchase," Ashton says.

Is This the Right Time to Buy a House?

This is a very important question – and a personal one that only you can determine. Still, you may want to consider the following.

Are you under a lot of stress? If you are, buying a house now will probably make things worse. Cicchelli, for instance, says that you probably don't want to buy a house "if your personal life is in upheaval."

So if, for instance, a family member is having a health issue or you just lost your job, you may want to stay put for a while.

Do you feel pressure to buy a house? Likewise, you also don't want to get caught up in the idea that right now is the time to buy a house because you've reached a certain age or stage of life, and if you don't buy a house now, you're somehow failing in life. It's an easy mind game to play. Maybe you're getting married soon and feel like you and your spouse are better suited for a house. Maybe you're hitting a certain age, like 30 or 40, and you feel like you should be living somewhere that has a white picket fence.

Are the pandemic and economy complicating things? If you're looking for an excuse to put off buying a house, the pandemic offers a pretty good one.

"The high demand for homes has made it harder for many people to get a home right now," says Dale Baker, president of KeyBank Home Lending.

The pandemic is the main culprit, according to Baker. He says the record-low interest rates have fueled demand, but the pandemic-related supply chain and labor issues have slowed the pace of new home construction.

"Low inventory and high demand have pushed home prices up over 15% in some markets, which means buyers can expect to pay more for the same home compared to a year ago," Baker says.

How Many Years Should You Rent Before Buying Becomes the Smarter Option?

That's really a difficult question to answer, but you could make a good argument that renting is the better option if you're investing money every year.

"Most people do not appreciate the fact that average year-to-year maintenance runs from 1% to 3% of a home's cost," Costa says. "On a $1 million dollar house, that's $10,000 to $30,000 per year just to maintain the house. Add property taxes and utilities on to that, and you are talking serious money every single year."

You also don't know if your property will shoot up in value over time, or possibly decrease if the neighborhood you've moved into is having economic troubles.

So while homeownership is generally considered the better investment, over the long run, a renter investing what they would be putting into house repairs and property taxes might not do so bad, one could argue.

Still, if you want a specific number, many experts suggest that if you're going to be in one place for five years or longer, it's financially wiser to buy a house.

What Are the Pros and Cons of Owning vs. Renting?

The pros of owning a house are generally:

- More space.
- More freedom to do what you want, without criticism from a neighbor or your landlord, like being able to remodel the kitchen.
- It is an investment. You will not make money on your rental payments. After years, you probably will on those house payments.

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