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*broker*



*Buying vs. Renting*



# RENTING VS. BUYING

## TABLE OF CONTENTS

<b>Introduction</b>	3
<b>Rising Home Prices and Length of Stay</b> The Caveat: Geography	4-5
<b>Can I afford It?</b> Financial Breakdown – Terms to Know Buying Renting	6-8
<b>What's Your Lifestyle</b> Consult a Tax Specialist in Your Home Country Rental Income 101 Get the Most for Your Deductions Take a Hike Demographics	9
<b>What About Renting?</b>	10-11
<b>Looking Forward</b>	12
<b>Conclusion</b>	13

# INTRODUCTION

At some point in your life, you've probably asked yourself: is it better for me to continue renting or to buy a home of my own? The buy vs. rent question is a notoriously tough one for consumers, and it's not just a financial decision; in fact, it can be a very personal choice. Weighing all the factors, and looking to your own needs – paired with the proper financial analysis – will help you make the smart decision for your particular situation and lifestyle. The Agency's guide is here to walk you through the myriad things you ought to consider when confronting the buy vs. rent question, so you can come to the decision that's right for you.



# RIISING HOME PRICES AND LENGTH OF STAY

Whether buying is a better financial investment than renting depends on many factors, but in particular, it depends on two things:

1. How fast prices and rents rise in your area
2. How long you stay in your home

Many websites have come up with price calculators that give you a better sense of the investment you're putting into your property, and how long you would need to stay in that property for it to pay off as a purchase.

We recommend The New York Times, which has an easy-to-use, reliable [calculator](#). Just plug in the numbers of your personal situation, and the calculator explains how long it would take you to break even and start to make a profit if you bought a house.



# RIISING HOME PRICES AND LENGTH OF STAY

## *The Caveat: Geography*

While this can be very useful, remember that the answers will change from one city to another – and in many cases, from one neighborhood to another. It's important to do extensive research on the area you in which you plan to buy. A 2012 study by Zillow found that overall, if you buy instead of rent, the investment pays off after 3 years. The NY Times pegs it closer to 6 years.

That said, the breakdown from city to city is extremely varied. In the greater Los Angeles region, the magic number is 4.3 years, assuming the buyer has made a 20% down payment. In the super high-priced NY market, it still makes more sense to rent, since it takes close to a decade in many spots for a return on your investment. In San Francisco's greater metropolitan area, the average score of 5.9 years encompasses a range from 2 years to 24 years depending on the neighborhood. Talk about variety – it's a good illustration of the need to do your own micro-research.

If you don't plan on holding onto the home you're buying for, at a minimum, the estimated profit threshold like those mentioned above, then you're probably much safer renting. On the other hand, if you know you're going to raise a family in a neighborhood where all the numbers point towards the purchase paying off in 3-5 years, then it should be a no-brainer to buy – if, of course, you can afford it.



# CAN I AFFORD IT?

Go through your finances and determine exactly how much you have to spend on a home (including upfront costs, usually 20% down payment plus taxes/fees) – then figure out whether that investment is worth putting into a house or if you may need that money available in the coming years. One of the things that got the US economy into the 2008 financial mess in the first place was millions of people purchasing houses that made absolutely no financial sense for them to purchase. Learn from history and make sure you get all your finances for the present and the next few years in order before you seriously think about buying. The good news is that while rents are rising nationwide, housing affordability is still at record levels and mortgage rates remain very low. According to the website Trulia, home prices rose 7% year-over-year last month while rents went up only 3.2%. This is leading many renters to consider homeownership for the first time.



# CAN I AFFORD IT?

## *The Financial Breakdown – Terms to Know*

Your analysis should take into account your personal situation, along with the potential down payment, mortgage and rental payments, buying and selling costs, property taxes, utilities, maintenance costs and tax deductions. Your analysis should also adjust for inflation and predict your home value and rental price appreciation.

### *Buying*

**Purchase Costs:** The costs you incur when you go to the closing for the house or condo you're buying. This includes the down payment and other typical closing costs.

**Yearly Costs:** Monthly or yearly expenses, including mortgage payments, condo fees (or other HOA fees), renovation costs, maintenance costs, taxes and homeowner's insurance.

**Lost Opportunity Costs:** Figures tracked for the initial purchase costs and for the yearly costs. Essentially, how much you could have made if you had invested the down payment elsewhere instead of buying your home.



# CAN I AFFORD IT?

## *Renting*

**Initial Costs:** The rent (usually first month's), security deposit and, if applicable, the broker's/finder's fee.

**Yearly Costs:** The monthly rent and the cost of renter's insurance.

**Lost Opportunity Costs:** Calculated each year for both your initial costs and your yearly costs. How much you could have made if you had invested that money elsewhere.



# WHAT'S YOUR LIFESTYLE?

It's important to remember that purchasing or renting is as much a lifestyle decision as it is a financial one. In addition to your financial situation, things to consider when buying include how mobile you will be, your marital status, your career goals and even your personality.

Homeownership invariably comes with more responsibility than renting a property, and this might not be for everyone. If you can't keep up a house, and you can't afford someone else to do it for you, then don't buy. You'll have a dilapidated, depreciating home in no time. Ask yourself truthfully, "Is the purchase of a house a responsibility I'm ready to take on?" At the same time, you may be much happier having that quintessential slice of the American Dream – a home of your own. It gives you the freedom to customize the home and landscaping as you please, and you can add whatever you like: garden, pool, shark tank, you name it. There's something special about that, and it may be worth living a more frugal life now to be able to afford it.

Plus, there's a certain peace of mind in not having heavy footsteps thudding above you day and night, or music blaring through the walls from the apartment next door. These little lifestyle annoyances, however trivial they might seem, may be some of the biggest factors in your buy vs. rent decision.

If you don't want your money tied up in a home, and prefer to use it on vacations, cars or anything else in the immediate future, then that's a lifestyle choice that may affect your decision. On the other hand, buying a home gives you the opportunity to make a lot of money if your equity increases. Equity is the differential between the amount the house is worth and the amount you still owe on the mortgage. You will build equity as you pay off your mortgage, but there's also the chance that you could lose equity if the home's value declines. This becomes a major concern if you want to sell or need to take equity out of the house to finance your lifestyle. So again – make sure your financial ducks are in a row before you go about making any big decisions.

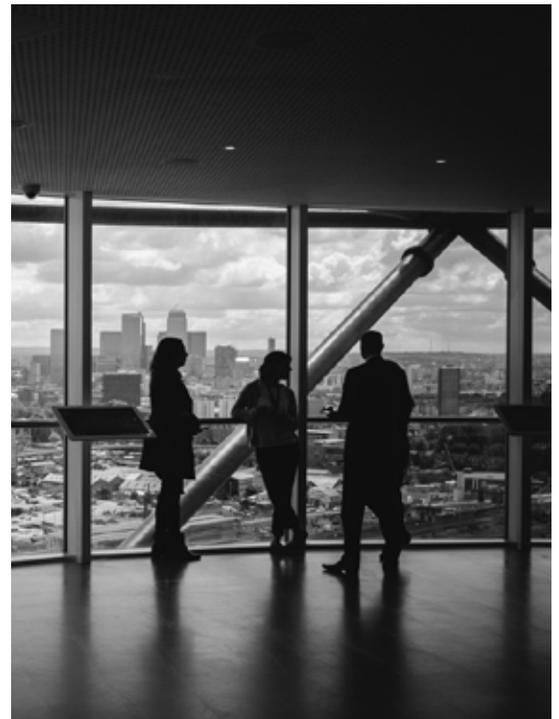


# WHAT ABOUT RENTING?

Renting is all about flexibility. If you want to move, you can usually do so pretty easily, no strings attached. Not so with a purchased home. So, if you move around a lot for your job – or plan to in the coming years – renting might be the better option for you. In the same vein, if your relationship is rocky and you’re thinking you and your partner might have to split, you’re saving yourself a major headache by not being tied to a home and a mortgage. A vast number of homes in this country are sold because of divorce, often before they’ve appreciated to the degree originally intended.

Renting is also an increasingly popular choice among young professionals, who enjoy the communal aspects of many apartments. More and more, we are seeing “mixed-use” developments with residences in urban villages that incorporate events, high-end gyms, pools, spas, cinemas and host of other amenities and services. This full-service lifestyle can be very appealing, especially for young folk looking to mingle rather than set down roots. And if they don’t like it, they can move right on to their next residential community.

Flexibility isn’t all wine and roses, however – being a temporary resident definitely has its downsides as well. Renting means that you need to rely on the landlord for repairs and upkeep of the property. You also don’t have control (usually) over rent increases, which can make your financial plans a lot less stable than homeownership. You’re also not building equity as a renter, as previously mentioned. Finally, you could risk eviction, even if you’re timely with your rent. If this is too scary for you to cope with, you might want to buy an apartment or house of your own.



# WHAT ABOUT RENTING?

## *But isn't renting a waste of money?*

Short answer: No. You're getting a meaningful product for your money. Plus, for many people, renting may allow them the lifestyle they enjoy and be a better financial decision. There is no guarantee that if you buy a house you'll have any more money in your pocket than if you rent. There might be unexpected maintenance costs, you could lose equity in your house if the housing market fails to perform, or there could be one of those freak forces of nature (a tree falling, an earthquake) that puts all sorts of kinks in your grand financial plans.



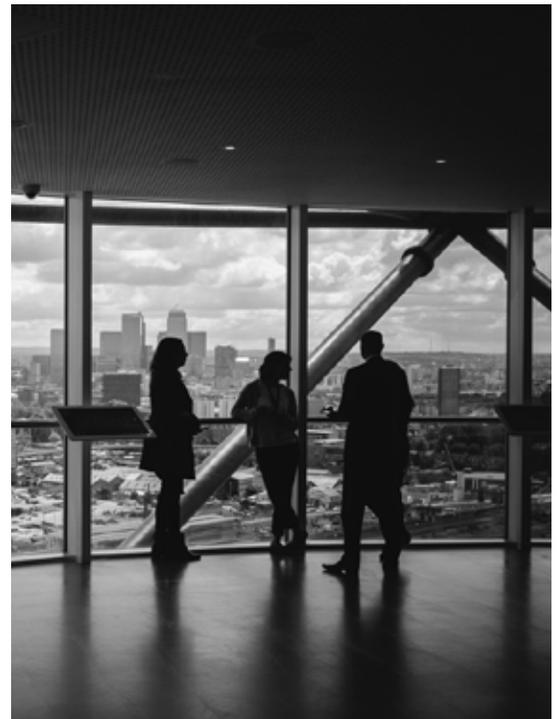
# LOOKING FORWARD

## *Buying Probably Won't Be This Affordable For Long*

Buying is a pretty good deal in many places right now compared to renting, but that math could change in the next few years because of a couple major factors. First, home prices are likely to keep rising faster than rents. The continued economic recovery will allow more people to buy a home, boosting the demand for housing while inventory is tight, fueling price increases.

Second, mortgage rates are almost guaranteed to rise in the next year as the economy gets better. The consensus among economists is that 10-year treasury bonds – which 30-year fixed-rate mortgages follow pretty closely – will rise 6 or 7 tenths of a point over the next year, which translates roughly into a 7-9% higher monthly payment.

By this time next year, the math of buying vs. renting could change dramatically, and the cost of buying may start to exceed the cost of renting in many of the priciest urban markets.



# CONCLUSION

## *Great. So...Should I Buy?*

This is something you'll have to decide for yourself. Again, the choice of renting vs. buying should take into account a host of both financial and personal/lifestyle decisions. The best we can say is that a common rule of thumb is that if you think you will be in one place for more than 5 years, and you can afford it, then it's probably a good idea to consider purchasing a home.

