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IS IT BETTER TO BUY OR TO RENT A HOME?

In deciding whether to buy versus rent, potential buyers need to compare the costs of buying versus the costs of renting. Some of these costs are set forth below:

Purchase Costs

1. Initial down payment (3%–20% of the price) plus closing costs to purchase the house and obtain a mortgage loan. (There are, however, some programs and means, other than buyers' savings, to help pay the down payment.)

2. Monthly mortgage loan payments, each of which:

- (a) pays off a portion of the home; and
- (b) is deductible on the buyer's income tax return as to the portion of the payment that is interest.

3. Other monthly payments, including those for water, sewer, electric, telephone, cable tv, internet, insurance, real estate taxes, and HOA or condominium dues.

4. Payments for repairs, replacement of items, and maintenance of homes.

Rental Costs

1. A security deposit (and maybe the last month's rent), which, however, is refundable or usable by the tenant if the tenant meets the lease terms. (We are not aware of any programs that assist a tenant in paying a security deposit.)

2. Monthly rent payments, no portion of which can normally be used to purchase the rental home and no portion of which are deductible. However, one must remember that rent payments have decreased along with house prices as homeowners who could not sell their houses then offered them for rent.

3. Same, except the tenant can often depend on the landlord paying for insurance and real estate taxes and can sometimes, particularly in the cases of apartment complexes or condominium units, count on the landlord paying one or more of the following: water, sewer, cable tv, internet, and dues.

4. Typically none.

5. The offset for some or all of these costs for homeowners is the historical, long-term appreciation in their home's value. However, if an owner has to sell during a price drop, as in the current market, the owner may suffer a significant loss despite long-term appreciation.

versus

5. There is no such positive offset for tenants since they do not own their homes, but the tenant also does not run the risk of loss from the sale of the home. At the termination of the lease, the tenant can simply leave.

Prior to the current market, the preceding cost analysis between purchasing and renting a home would typically indicate that one should buy rather than rent, but do not be surprised if your analysis, given current costs, indicates just the opposite. As a part of this cost analysis, however, one must also consider whether the costs and appreciation discussed above will increase or decrease in the long term, and not just rely on their current levels. While no one can predict what the housing market will do in the future, historically – and, we believe, even now – long-term analysis has and will continue to indicate that, for many potential buyers, buying a home (with continued ownership) is more economically rewarding than renting one.

Even if the preceding analysis indicates that a buyer should purchase a home rather than rent one, that same analysis should not be used in determining whether to purchase a second or vacation home or an investment rental house. The analysis of whether to purchase these homes is very different from the one used to decide whether to purchase a primary residence. First, a person does not have to purchase a second, vacation, or rental house – the person already has a primary residence to provide him or her with shelter. Therefore, all of these house purchases are optional and carry initial costs and monthly costs that a buyer does not *have* to incur. If a buyer wishes to purchase such a home, the buyer, to be conservative and absolutely safe, particularly in the current market, should have sufficient surplus income to cover all of these costs, whether or not the buyer intends to rent the house. In the current market, there seems to be a surplus of houses to rent and a decrease in rents, so rental house owners cannot be assured of obtaining a tenant or, if they do, of receiving the amount of rent that they need to cover the rental house's expenses and any mortgage payments.