Home Buying Versus Renting

By
Susan Carr-Templeton
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Which is economically better?

Jed Kolko, chief economist,Trulia, has offered an analysis where the results are somewhat surprising. Yes, at this time, it is cheaper to buy a home versus rent.

It is 44 percent cheaper to buy versus rent in the 100 largest markets, including the Chicago area, according to Kolko. If you have been thinking about buying a home and have been debating the rent versus buy question, be sure to do the analysis for yourself. A change in any of the assumptions can alter the results, which show the economically best approach for each individual.

When the comparison was done, he looked at current rental costs compared with the cost of purchasing and owning a home. However, with the current low mortgage rates and a short supply of rentals (higher rental rates), buying won.

The analysis assumed that one would live in a home for seven years, carry a mortgage at a 3.5 percent fixed interest rate and pay 20 percent down. Appreciation in the home's value was included at a conservative, annual 2.2 percent interest rate even though the historical appreciation for the last 30 years has been 3.3 percent (including the 2008-2009 market downturn). Kolko assumed maintenance and renovation costs at 1 percent of the home's value and property taxes. He also factored in closing costs. (When one buys a home, typically the seller pays the closing costs so the costs will affect the return when the owner sells.) This also takes into account that the owner itemizes deductions, such as mortgage interest costs.

It is important to consider the factors I listed above when comparing buying versus renting and adjust them for each situation. For example, if a buyer thinks that he or she may *not* own the home for as long as seven years, then the buyer accumulates less price appreciation due to the shorter time frame, and closing costs are spread across a shorter time period, therefore diminishing the potential return.

Looking into the future, this analysis can change significantly if the supply of local rental properties increases, which lowers rental rates and mortgage rates rise, increasing the cost of ownership.

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About Susan Carr-Templeton

Susan Carr-Templeton is an Oak Brook-based financial planner and wealth manager with more than 20 years of investing experience. With a fee-based model, she also works with clients in DuPage and Hinsdale, Illinois. In addition to managing Stafford Wells Advisors, Ms. Carr-Templeton volunteers on the investment committee for the Advocate Foundation. She offers personal finance on investing, saving, retirement and more in “Making the Most of Your Money.”