



# Rent or Buy?

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Disclaimer: This is not financial advice.

# Overview

- Buying a home is a huge part of the American Dream.
- Choosing to buy or rent, though, is a major decision that affects your financial health, lifestyle, and personal goals.
- Whichever option you choose depends entirely on your lifestyle and financial situation.
- Both require a regular income and may also require a certain degree of effort to maintain.

# Overview (cont.)

- But there are several differences that make renting and owning property distinctly different.
- Renting a property doesn't come with all the responsibilities associated with homeownership and you have more flexibility, as you aren't necessarily tied down to your property.
- Owning your home gives you a sizeable investment, but it does come at a big cost—both upfront and over the long run.

# Overview (cont.)

- Owning a home isn't always better than renting, and renting is not always as simple as it seems.
- On the next slide, I highlight some of the key differences between renting and buying.

# Key Takeaways

- Whether you choose to rent or buy your home depends on your financial situation, lifestyle, and personal goals.
- Both provide you with a place to live and require regular income in order to make the payments.
- Renting offers flexibility, predictable monthly expenses, and someone to handle repairs.
- Homeownership brings intangible benefits, such as a sense of stability and pride of ownership, along with tangible ones of tax deductions and equity.
- Renting doesn't mean you're throwing away money every month, and owning doesn't always help you build wealth in the long run.

# Renting A Home



- The biggest myth about renting is that you're throwing away money every month. This is not true.
- After all, you need a place to live, and that always costs money in one way or another.
- While it's true that you aren't building equity with monthly rent payments, not all of the costs of homeownership always go toward building equity.

# Renting A Home (cont.)

- When you rent, you know exactly what your housing costs each month.
- This amount is indicated on your lease so you can plan accordingly.
- In some cases, your landlord may also include other costs within that amount, such as utilities, storage, and homeowner association (HOA) fees if you live in a condominium.

# Renting A Home (cont.)

- As a renter, you may face rent increases each time your lease is up for renewal.
- These rent increases can be even steeper if you live in certain parts of town.
- This may not be the case if you live in an area with rent ceilings and rent control, which limit how much a landlord can increase the rent, if at all.



# Renting A Home (cont.)

- Renting means you're able to move whenever your lease ends.
- However, it also means you could have to move suddenly if your landlord decides to sell the property or turn your apartment complex into condos.
- Less dramatically, they could just bump up the rent to more than you can afford.

# Owning A Home

- Homeownership brings both tangible and intangible benefits.
- Not only do you have your own home, but you can make decisions about the look and design of the space, and you also get a sense of stability and pride of ownership.

# Owning A Home (cont.)

- Keep in mind, though, that changing your mind about where you're living can be very expensive since real estate is an illiquid asset.
- You may not be able to sell when you want.
- And even if you do, you may not get it at the price you want, especially if the housing market is down.
- Even if it's up, there are significant transaction costs associated with selling your property.

# Owning A Home (cont.)

- The overall cost of homeownership tends to be higher than renting even if your mortgage payment is lower than the rent.
- Here are some expenses you'll be spending money on as a homeowner that you generally do not have to pay as a renter:

# Owning A Home (cont.)

- Property taxes
- Trash pickup (some landlords require renters to pay this)
- Water and sewer service (some landlords require renters to pay this)
- Pest control
- Tree trimming
- Homeowners insurance
- Pool cleaning (if you have one)
- Lender-required flood insurance (in some areas)
- Earthquake insurance (in some areas)

# Owning A Home (cont.)

- Mortgage interest can make up nearly all of your monthly payments in the early years of a long-term mortgage.
- It can take as many as 13 years before more of your payment goes toward the principal balance in a 30-year home loan.
- You'll spend about \$72,000 in interest for a \$100,000 loan at 4% for 30 years.
- Admittedly, you'll recoup some of that in tax deductions if you can itemize.

# Owning A Home (cont.)

- And let's not forget repairs and maintenance, which can be very costly.
- You may find yourself with an unexpected leak in the roof.
- Replacing your roof could cost an additional \$12,000, which may not be covered under your home insurance policy.

# Key Differences

## Property Values

Certain factors can positively or negatively affect the value of your home, including:

- Economic issues
- Maintenance
- Environmental concerns, such as nearby landfills and hazardous waste sites
- Outdated interiors
- Exterior conditions
- Housing surpluses

These factors can, of course, affect you as a renter, too. For instance, negative factors may help lower your rental costs. After all, the landlord may be desperate for income and may end up slashing the monthly price.



# Key Differences

## Tax Benefits

- Homeowners may benefit from certain tax benefits.
- The home mortgage interest deduction reduces any out-of-pocket expenses during the early life of the loan, as long as deductions are itemized.
- Of course, if you rent, you get no mortgage tax deduction at all.
- Keep in mind, that you can still take the standard deduction that's available to all taxpayers.
- The same is true for homeowners who don't have enough deductions to itemize individually

# Key Differences

## Repairs and Maintenance

- Being a homeowner means you're responsible for maintenance and regular upkeep.
- This can be very costly.
- And renovation projects don't often increase your home's value by more than what you spend on them.
- According to Remodeling magazine, project costs continue to outweigh values, with an estimated 60 cents recouped for every dollar spent on repairs and renovations.

# Key Differences

## Repairs and Maintenance (cont.)

- If you live in a community with an HOA, it may take some homeownership chores off your plate.
- That will usually cost a few hundred dollars a month.
- But beware of the headaches that association membership can entail.
- If you rent, your landlord will take care of all the repairs and maintenance, though of course they may not be done as quickly or as well as you would like.

# Key Differences

## Repairs and Maintenance (cont.)

- The projects that recoup the most are not glamorous things you'll be excited about doing.
- The best return (and the only one on Remodeling's list that comes close to recouping its entire cost) comes from replacing a garage door.

# Key Differences

## Time Commitment

- If you like having your evenings and weekends to use as you please, if you work long hours, or if you travel frequently, then the time commitment that comes with homeownership may be more than you want to take on.
- There are always projects that you will need or want to take care of, from finding a plumber to replacing a rusted-out pipe and repainting the bedroom to mowing the lawn.

# Is It "Better" To Rent Or Own A Home?

- There is no definitive answer as to whether renting or owning a home is better.
- The answer depends on your own personal situation—your finances, lifestyle, and personal goals.
- You need to weigh out the benefits and the costs of each based on your income, savings, and how you live.

# Is Renting Cheaper Than Owning a Home?

- Renting can be a very predictable expense.
- You know what your costs are upfront and can plan accordingly.
- On the other hand, if you enjoy a lavish lifestyle, you may find renting to be more expensive than owning a home, even if there are repairs and regular maintenance you have to make with purchasing real estate.

# Is Homeownership A Good Investment?

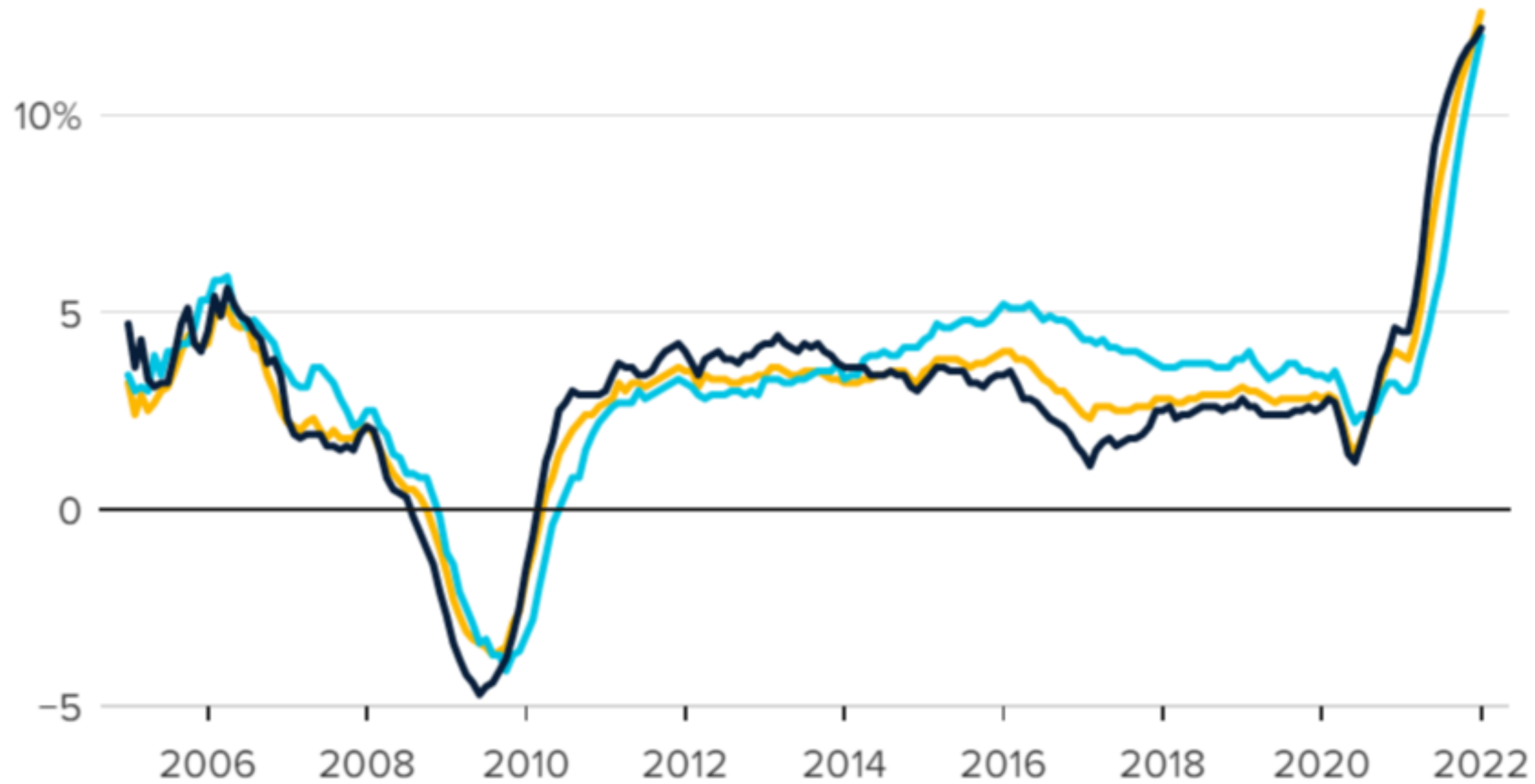
- Buying a home can be a very good investment.
- You may be able to build equity.
- But as with any investment, just how well your investment performs depends on a number of factors.
- When it comes to real estate, factors like location, the economy, maintenance, and environmental concerns can affect the overall value.
- And keep in mind, that it's never static, so things can change.



# National single-family rent index

Year-over-year percent change, by price tier

SFRI Low Tier High Tier



Source: CoreLogic



# Cost of Renting vs. Cost of Buying

## Cost of Renting Over 5 years

Rent	(\$117,653)
Renter's Insurance	\$0

**Total** (\$117,653)

## Cost of Buying Over 5 years

<b>Home Equity</b>	<b>\$198,056</b>
Home Value	\$552,040
Mortgage Balance	(\$353,984)

<b>Upfront Expenses</b>	<b>(\$106,396)</b>
Down Payment	(\$100,000)
Mortgage Fees	(\$775)
Other Closing Costs	(\$5,621)

<b>Ongoing Expenses</b>	<b>(\$159,554)</b>
Mortgage Payment	(\$97,980)
Mortgage Insurance	\$0
Property Taxes	(\$21,764)
Homeowner's Insurance	(\$13,270)
Maintenance & Other Expenses	(\$26,540)

<b>Selling Expenses</b>	
Closing Costs	(\$33,122)
Capital Gains Tax	\$0
Proceeds From Home Sale	\$164,934
Tax Savings	\$13,253
Lost Interest Income	(\$26,466)

**Total** (\$114,229)

# Cost of Renting vs. Cost of Buying

## Cost of Renting Over 30 years

Rent	(\$917,164)
Renter's Insurance	\$0

**Total** (\$917,164)

## Cost of Buying Over 30 years

<b>Home Equity</b>	<b>\$1,403,805</b>
Home Value	\$1,403,805
Mortgage Balance	\$0

<b>Upfront Expenses</b>	<b>(\$164,210)</b>
Down Payment	(\$155,000)
Mortgage Fees	(\$775)
Other Closing Costs	(\$8,435)

<b>Ongoing Expenses</b>	<b>(\$1,858,408)</b>
Mortgage Payment	(\$1,114,410)
Mortgage Insurance	\$0
Property Taxes	(\$262,968)
Homeowner's Insurance	(\$160,342)
Maintenance & Other Expenses	(\$320,688)

<b>Selling Expenses</b>	
Closing Costs	(\$84,228)
Capital Gains Tax	\$0
Proceeds From Home Sale	\$1,319,577
Tax Savings	\$191,317
Lost Interest Income	(\$399,800)

**Total** (\$911,524)



**"We don't have to be smarter than the rest. We have to be more disciplined than the rest."**

**-Warren Buffett**



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