BUYING VS RENTING

The desire to own a home has been a fundamental aspiration among Americans in nearly every generation. However, individuals often worry whether they are making a smart investment by buying a home, and have been told renting is a safer and more flexible option. But what is the best decision for saving you money in the long run? Many experts feel that buying a home still makes the most sense. In a report titled “The Dream Lives On: the Future of Homeownership in America,” Managing Director of the Joint Center of Housing Studies at Harvard University Eric S. Belsky, offered 5 reasons why buying a home is still a solid economic investment:

It offers the sort of leveraged investment that isn’t available to many. “Few households are interested in borrowing money to buy stocks and bonds and few lenders are willing to lend them the money,” writes Belsky. “As a result, homeownership allows households to amplify any appreciation on the value of their homes by a leverage factor.”

People pay for housing, whether they buy or rent; **those payments better serve homeowners.** Homeowners build equity, while renters do not.

It forces people to save. Most people who aren’t good savers are diligent when paying their mortgage. ”Owning a home can overcome people’s tendency to defer savings to another day,” notes Belsky.

Homeowers reap tax benefits. Homeowners can deduct mortgage interest and property taxes from income. In addition, capital gains on home sales are excluded up to certain levels.

It’s a hedge against inflation. Home values tend to rise in most time periods faster than the rate of inflation.

Years	Rent Payment	Mortgage Payment	Monthly Difference	After Tax Savings	Yearly Difference	After Tax Savings
1	800	1000	-200	-50	-2400	-600
2	840	1000	-160	-10	-1920	-120
3	882	1000	-118	+32	-1416	+384
4	926	1000	-74	+76	-888	+912
5	972	1000	-28	+122	-336	+1464
6	1021	1000	+21	+171	+252	+2052
7	1072	1000	+72	+222	+864	+2664
8-30			*Savings increase every year*			

Buy vs. Rent Comparison

The chart above shows a cost comparison for a renter and a homeowner over a 7 year period.

The renter starts out paying $800 per month with annual increases of 5% The homeowner purchases a home for $110,000 and pays a monthly mortgage of $1,000.

After 6 years, the homeowner's payment is lower than the renter's monthly payment.

With the tax savings of homeownership, the homeowner's payment is less than the rental payment after 3 years.

Source: http://www.realtor.org/field-guides/field-guide-to-buying-vs-renting