

SHOULD I RENT OR SHOULD I BUY?

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When you're thinking about changing where you live, you have some decisions to make. Not only should you ask yourself which town you want to live in or what type of home you prefer (colonial, cape, ranch, split level, condo), but also whether you should rent or buy. This is not like asking yourself if you prefer vanilla or chocolate, this is a life choice and the answer largely depends upon your finances and whether this is the right time for you to make a move.

Living in a rental can be easy - you sign a lease for a certain amount of time at an agreed upon monthly rental fee, follow the rules in the lease, pay your utilities, renter's insurance and food, and call the landlord or superintendant when something needs repair or replacement. There's a built-in relief factor that because you have only the right of possession for the premises you have no ownership concerns. It's a turnkey operation with little responsibility and when your lease term is up, you move out.

Many believe that renting is cheaper than owning because tenants do not pay real property taxes. That would not be entirely true. While tenants do not receive a real property tax bill from the town, they do pay, indirectly, that property's taxes through their monthly rental fee. This is because the monthly rent a tenant pays a landlord pays the landlord's monthly mortgage payment, which usually includes 1/12 of his real property taxes and insurance.

Conventional wisdom is that renting a place to live is good, but owning is better. Aside from providing a home for raising a family, two common arguments for owning are that a home owner builds equity over time and that the mortgage interest and property taxes are deductible expenses on federal income tax returns. In contrast, renting builds zero equity and monthly rent is not a deductible expense.

Buying a home is taking on a long term financial responsibility and, just like rent payments, mortgage payments are due every month without fail. Furthermore, where monthly rent can increase each year, mortgage payments tend to remain constant, staying relatively the same if your mortgage loan has a fixed rate of interest. That being said, a mortgage payment can change, but usually only slightly to reflect incremental increases in real property taxes and homeowner's insurance.

The present combination of home prices at approximately the level they were back in 2004 and very low interest rates has led many to jump onto the "now is the time to buy!" bandwagon and forget to consider if perhaps it would be better to rent. The answer to the question "should I buy or should I rent?" cannot be answered to apply to all as it is a personal and an individual decision. It is important to evaluate if buying a home now is the right thing to do financially, if the home meets a family's needs, and whether or not the property will be a burden to maintain.

If you are wondering whether renting or buying is better for you, you could talk to an accountant, a banker or a financial planner. There's also a website with a buy or rent calculator that might help you figure it out – it's www.bankrate.com/calculators/mortgages/rent-or-buy-home.aspx.

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