

**FE241** (Revised January 2021)

# To Buy or Rent?

## The Choice



iStock photo

Revised by

**Carrie Johnson**, Extension Personal and Family Finance Specialist

**Candace Kornelsen**, Graduate Extension Assistant (Graduate Student, M.ed. in Counseling)

Owning your own home no longer may be a practical possibility for many lower- and middle-income Americans. Real estate prices have risen nearly out of reach for many, and the investment benefits of home ownership have diminished.

Annual home appreciation often is less than the current inflation rate. During the past 25 years, home ownership has yielded higher rates of return than many other investments, including stocks, certificates of deposits, savings and most bonds. However, in the decades since the '80s, home appreciation has been minimal. In some areas, home values have declined.

For many people, renting has become increasingly popular as the preferred housing choice in the 21st century.

Whether you choose to rent or buy, housing is the single largest budget item for most families.

## Housing Options

### Buying

All of the following types of housing can be purchased new or used:

**Conventional home** – This is a single one-family, site-built home.

Today most individual homes have about 1,200 to 1,800 square feet of floor space.

**Manufactured home** – These homes are increasing in popularity, especially among young married couples and retired couples.

They were called mobile homes, but this term has become obsolete because very few of these homes are moved once they are set into place. Prefabricated and modular homes fit into this category and are available in a wide array of sizes and styles.

**Condominium** – This is an apartment (in a multiunit project) that is owned by an individual who also owns a proportionate interest in the common areas outside the apartment. Association fees usually are assessed monthly to cover common services and repairs such as garbage and water, yard care and snow removal. Additional charges may be imposed by the membership.

**Duplex or twin home** – This is a structure that includes two housing units with a common wall or common ceiling and floor. Both units may have separate ownership. In some cases, one owner owns both units.

**Townhouse** – This is one of a number of side-by-side units in a row, each of which is owned separately.

**NDSU** | EXTENSION

North Dakota State University  
Fargo, North Dakota

## Renting

Usually when you think of renting, you think of an apartment, a single-family unit within a larger unit. Some apartment complexes are as small as four units, while others have hundreds of individual units.

Also available for rent are rooms, duplexes, individual homes, condominiums and townhouses. Another option is house-sharing; that is, renting a unit with someone else and sharing the cost.

## What to Look For

Because housing is only one of the needs provided from your income, consider it in relation to your total needs.

- What size is your family? Do you expect the size to change in the next two to three years? In 10 years?
- What are the ages of family members?
- What are their interests, goals and lifestyles?
- What does the family do for entertainment?
- Is employment stable?
- How much is the family willing to invest without fear of loss?
- If renting, what is the lease period?

Consider the family lifestyle:

- Do you have enough bedrooms?
- How far are members of the family willing to commute to school, work and other activities?
- Do you have adequate storage space?

Because every person's priorities vary, you may not be able to find one place that will satisfy all your wants. You should "be prepared to make some trade-offs if necessary.

## At What Price

Another consideration when determining the type of housing you want is the monetary commitment. The amount that is spent on housing is influenced by personal considerations and the amount of income earned, present and future.

A family budget permits a family to plan for future expenses and allows the family to determine more clearly how much money can be spent on housing expenses each month. Weighing the advantages of investing savings in housing rather than in other investment choices also is important.

## Rules of Thumb

A few generally recognized rules of thumb to help determine the amount of money to spend on housing are:

- Aim to spend 25% to 30% of total net monthly income for total housing expenses.
- First-time buyers should not pay more than 2.5 times their annual gross income on housing.
- Your monthly housing expense combined with other installment debts should not exceed 33% of take-home pay

General guidelines can be useful in helping consumers evaluate their own situation; however, situations differ and your own needs must be considered carefully.

## Advantages of Renting

- **Low initial investment** – Buyers need five to 10 times as much cash to buy versus renting.
- **Limited responsibility** – Problems and repairs are left to the landlord.
- **Less tax impacts** – The renter is not influenced directly by fluctuating property values.
- **Budgeting ease** – Rent is a fixed amount that even may include utilities.
- **Greater ease of mobility** – Leases may be very short term.
- **Lower insurance costs** – Only contents need to be insured.
- **Low moving-in costs** – Lower deposits may be required and no down payment is required.

## Advantages of Buying

- **Cost savings** – In some areas and situations, the cost of ownership can be less than the cost of renting.
- **Leverage** – You control the property and realize capital gains from the very beginning.
- **Forced savings** – This is especially important if the buyer will pay down the principal balance by a considerable amount.
- **Tax advantages** – Interest and property taxes can be tax deductible when itemized.
- **Personal freedom** – Homeowners have a feeling of independence to remodel, redecorate or make improvements.
- **Few restrictions** – Home ownership means less restrictions on pets and noise levels.
- **Better credit rating**
- **Pride of ownership**

# Fitting the Housing of Your Choice Into Your Budget

The following may be helpful in determining if you have the financial stability to afford the housing of your choice. If records are not available to determine your spending patterns, look back at the past three months' spending and divide by three to find the average spent for each basic expense. Your check register and billing/bank account statements are a good place to start.

## Living Expenses

Food	\$ _____
Clothing	_____
Transportation	_____
Medical and dental	_____
Recreation/entertainment	_____
Insurance premiums	_____
Pension/retirement, etc.	_____
Education	_____
Savings	_____
Installment loans	_____
Miscellaneous	_____
<b>Total living expenses (minus housing)</b>	_____

Now you can take your total monthly income and subtract this figure from it. This will give you the total amount you have been spending on housing.

You can break your housing expenses down on the following form. The form also can be used when you are looking at housing options.

## Housing Expenses

### • Fixed expenses

Rent or mortgage payment	\$ _____
Property insurance	_____
Property taxes	_____
Association fees	_____

### • Flexible expenses

Utilities (heat, water, electricity, etc.)	_____
Cable television	_____
Special assessments	_____
Home and yard equipment	_____
Maintenance	_____
Other	_____
<b>Total housing expenses</b>	_____

## For Additional Help

If you need additional help in determining whether your budget can handle increased housing costs, contact a mortgage lender, real estate agent or consumer credit counselor. They may have additional resources to help you make that decision.

In addition, first-time homeowners' classes may be available in your community. First-time homebuyer programs can make you eligible for special financing. Local real estate agents, lenders and your Extension agent can provide further information.



## Making the Choice

In making the choice to buy or rent, first identify the needs and long-range goals of the household. Consider the financial responsibilities. Then ask, “Do I really want the responsibility of owning?” You must remember that the cost and personal factors involved in housing decisions will change through time.

The general economic climate of the country and your community greatly affects the financial decision of whether to own or buy. When rental costs are relatively low, for example, when monthly rent on a \$100,000 property is .5% or \$500, the house would be a lousy buy and renting would make more sense. Renting also pays if housing prices are consistently flat; that is, if the annual gain in value is less than 2% or if it is consistently less than the inflation rate.

On the other hand, when rent approaches 1% of market price (\$1,000 on a \$100,000 house or \$300 on a \$30,000 home), being an owner generally pays off. If you think home ownership is for you, buying in these situations would be a good choice from an economic standpoint.

In the end, the choice can be made only by each individual household. Will buying at this time be best? Or will renting be best?

### Other Resources in North Dakota

- Your local banker or mortgage lender
- Your local or state board of Realtors

*This publication was authored by Debra Pankow, retired family economics specialist, NDSU.*

**For more information on this and other topics, see [www.ag.ndsu.edu](http://www.ag.ndsu.edu)**

NDSU encourages you to use and share this content, but please do so under the conditions of our Creative Commons license. You may copy, distribute, transmit and adapt this work as long as you give full attribution, don't use the work for commercial purposes and share your resulting work similarly. For more information, visit [www.ag.ndsu.edu/agcomm/creative-commons](http://www.ag.ndsu.edu/agcomm/creative-commons).

County commissions, North Dakota State University and U.S. Department of Agriculture cooperating. NDSU does not discriminate in its programs and activities on the basis of age, color, gender expression/identity, genetic information, marital status, national origin, participation in lawful off-campus activity, physical or mental disability, pregnancy, public assistance status, race, religion, sex, sexual orientation, spousal relationship to current employee, or veteran status, as applicable. Direct inquiries to Vice Provost for Title IX/ADA Coordinator, Old Main 201, NDSU Main Campus, 701-231-7708, [ndsuoaa.ndsu.edu](mailto:ndsuoaa.ndsu.edu). This publication will be made available in alternative formats for people with disabilities upon request, 701-231-7881.