

Renting Vs. Buying

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One of the most common questions we here today is “should I continue renting or should I buy?” To help answer that question we have put together this guide to help you better understand home ownership and all the benefits that come along with it.

Many people who have never owned before almost always overlook some of the perks that comes with owning their home. It doesn't come down to the rental amount you are currently paying vs. the mortgage amount. There are many short-term and long-term benefits that just don't come with renting.

We have put together several examples of the benefits of owning. For all of the examples we used the following criteria

Purchase Price: \$170,000

Down Payment: 3.5%

Loan: 30 year fixed at 4% interest

Rent Increases

We often have to remind clients that what their rent is today won't be the same amount next year or the year after. Historically, the national average rent increases roughly 5% per year. That means that if you are paying \$800 a month in rent today, next year you will probably be paying around \$840, and around \$882 the year after

that. It will keep going up every year and that's a fact. On the flip side, a 30-year fixed-rate mortgage will have the same payment for the life of the loan. Let's jump ahead 10 years. That \$800 rent payment today will become a \$1,241 rent payment while the \$800 mortgage will still be \$800. A difference of \$441 a month.

	Rent	Mortgage
Year 1	\$800	\$800
Year 2	\$840	\$800
Year 3	\$882	\$800
Year 4	\$926	\$800
Year 5	\$972	\$800
Year 6	\$1,021	\$800
Year 7	\$1,072	\$800
Year 8	\$1,126	\$800
Year 9	\$1,182	\$800
Year 10	\$1,241	\$800

Tax Breaks

Unlike renting, there are tax breaks you will get from owning. The government wants people to own their home, and as an incentive to do so, the IRS allows you to deduct the interest paid from your taxes. Following the same example as we have been using, you would pay roughly \$6,547 in interest the first year of home ownership. Let's assume you are in the 20% tax bracket. This would mean that owning your home would save you just over \$1,300 in taxes the first year. If you are in a higher tax bracket, that means even more savings for you.

Amortization

As most people know, part of your mortgage payment goes towards the principal of the loan. Meaning that with every payment, you build equity in your home and your net worth increases. You don't have this perk when you rent. When you rent, the landlord gets the equity. Let's use the same comparison as before. With a \$165,000 loan @ 4% interest, at the end of year 1 you will have \$2,905 in equity in your home, and at the end of year 2 you will have \$5,929 in equity. At the end of year 10 you will have over \$35,000 in equity. After 10 years of renting you would have nothing to show for it. Keep in mind that this does not factor in appreciation!

	Equity	
	Renting	Owning
Year 1	\$0	\$2,905
Year 2	\$0	\$5,929
Year 3	\$0	\$9,076
Year 4	\$0	\$12,351
Year 5	\$0	\$15,759
Year 6	\$0	\$19,306
Year 7	\$0	\$22,998
Year 8	\$0	\$26,840
Year 9	\$0	\$30,840
Year 10	\$0	\$35,002

Appreciation

Another perk of owning your home is appreciation. Real estate appreciates in value meaning that every year your home's value increases. Historically, homes have appreciated around 4% a year. That means that the home you bought for \$170,000 would be worth around \$242,000 at the end of year 10. That's an increase in value of almost \$72,000. Add that to the equity you have built up from paying your mortgage and you will have around \$107,000 in equity after 10 years of owning. That's a lot of money to give up by choosing to rent!

	Home's Value
Year 1	\$170,000
Year 2	\$176,800
Year 3	\$183,872
Year 4	\$191,227
Year 5	\$198,876
Year 6	\$206,831
Year 7	\$215,104
Year 8	\$223,708
Year 9	\$232,657
Year 10	\$241,963

It's Yours!!!

Lastly, while it may not have any monetary value, one of the best features of buying a home is that it is YOURS! One of the most common things we see from clients, that have been renting, is that they are ecstatic about the fact that they can finally do whatever they want to their home. You can customize your home however you like. You can paint the walls whatever color you want. You can get the puppy or kitten you have always wanted without

having to pay hefty pet deposits. You can do whatever you want! It's YOURS!

We hope that this guide has shed some light on the differences in renting vs. buying. If you have any questions don't hesitate to give us a call!

Conclusion

Buying a home is a big step and The Melcher Real Estate Group strives to make the process as easy and stress free as possible. If you have been thinking about buying a home, give us a call to schedule a private consultation. You can reach us by phone at (615) 305-3910, by email at TheMelcherGroup@gmail.com, or visit our website at www.TheMelcherGroup.com for more information.

Thank You