

RENT VS. BUY: EVALUATING THE PROS AND CONS

Is it better to rent a home or to buy it? The conventional wisdom favors buying, but the percentage of people renting has been growing. It's a complicated decision and there are a number of pros and cons to consider for each option.

RENTING

Pros:

- It's a good short-term solution. If you're not planning to stay long in your current location, renting is a safe interim choice, with fewer costs and generally more flexibility. And because of the upfront costs, buying makes the most sense if you plan to stay in your home at least five years, according to the Freddie Mac.
- You may have to put down a refundable security deposit, but otherwise your direct housing costs should only be rent and any expenses that aren't included in rent, such as utilities.
- Home ownership isn't the only investment open to you. It's tough to accurately predict which way home prices or investment your mortgage, taxes and other required fees, you can generally stay in a home you purchase, but if your landlord's nephew wants to move into your rental when your lease is up, you'll have to find a new place.

Cons:

- No chance for equity appreciation. If the property where you live is worth more when you move out than when you moved in, a tenant doesn't benefit from that gain in value.
- What you see is what you get. Situations may vary, but landlords typically won't allow tenants to make major changes in their homes, so be sure your rental suits your needs as is. Even if you paint a room a bright color or put up some wallpaper, you may have to repaint it a neutral white before you move out. Landlords may also be slow to upgrade kitchens, bathrooms or fixtures that are still functional.
- You may have to leave sooner than you like. As long as you pay The Oklahoma Housing Finance Agency (OHFA) offers a Homebuyer Down Payment Assistance program that can offer 3.5% to 4% toward your total loan amount, which means it takes less money up front to purchase a home, with additional benefits for teachers, first responders and Oklahoma state employees. See <https://www.ok.gov/ohfa/Homebuyers/> for details

BUYING

Pros:

- A potential increase in the value of your home is a major benefit of home ownership. The equity you build in a home can provide a down payment for your next house, an addition to your retirement nest egg or funding for a variety of other goals.
- A conventional mortgage will lock in a major portion of your housing costs for up to 30 years. That may be appealing if you're living in any area where the prices to rent and buy are rising.
- There are important tax benefits to home ownership. The chance to deduct mortgage interest and property taxes on your tax return every year helps to lower your overall costs. Note: Tax laws do change. A change after you buy could have a negative impact—and there's not a lot you can do about it—but there's also the chance that a change does not occur. This is a point where you need to weigh your options and goals and do what makes most sense.
- The recent SECURE Act (Dec. 20, 2019) allows penalty exceptions to taking distributions from a retirement plan for a first-time home purchase up to \$10,000. However, taking money from your retirement account (even without penalty) means that money is not working for you.

Cons:

- It may be better to use the money you would use for a down payment and other costs to achieve other financial goals. That's particularly true if you have high student or credit card loans or any other near-term objectives that would require a big cash infusion.
- There's no guarantee a home's worth will increase, and values can also decline due to many factors. If you want to find out how the market has been doing before you buy, contact a local board of realtors or other source for information on average rises or drops in value in the area over the last few years.
- There are high upfront and ongoing costs. A typical down payment on a house is 20% of the purchase price (although the down payment for an FHA loan can be as low as 3.5%, depending on your credit score). You will get that money back when you sell, but you generally won't have access to it in the meantime. In addition, closing costs can include points and a variety of other fees, such as the appraisal and home inspection costs, attorney fees and title insurance, to name a few. These fees can add up to 2% to 5% of the home's purchase price, according to Zillow. Unlike most renters, you will have to pay to repair the furnace, replace the roof and address a wide range of other maintenance costs.