



So, you think you are ready to move out of your parents' house and get a place of your own. That's great! But, let's see if you are financially able to do it. Will you rent or buy a place to live? How much will it cost? In order to get your first place, you need to be armed with a lot of information and have some money put aside to do it. This process can take several months' preparation.

Advantages of Renting

- More fixed costs for the length of the lease
- No ownership equity
- Easier to move out
- Generally less maintenance
- Smaller initial outlay of cash

For most people, their first place of their own is an apartment. Renting any type of residence has some advantages and some disadvantages. Let's look at some of these advantages. Keep in mind that there are different types of residences available for rent, such as apartments, condominiums, townhouses, duplexes, and houses. After we talk about the general advantages to renting a residence, we will look at the specific advantages and disadvantages for renting apartments and houses.

The first advantage to renting is that most of the costs are fixed; they don't change for the length of the lease. The lease is the contract that you sign to live in the residence for a certain period of time. Contracts will be covered in greater detail in the "Consumer Skills" module. Some leases or rental agreements cover part or all of your utilities, such as water, electricity, trash collection, etc. Usually, the costs for a rental unit will remain the same for the length of the lease, including the amount of rent per month.

The second advantage to renting is that your equity, or ownership, in the residence doesn't go up or down. It remains steady—no ownership. You don't lose or gain any equity due to fluctuations in the housing market. Without ownership in the residence, you will not be responsible for property taxes or homeowner's insurance, which can be costly. You should get renter's insurance for your personal belongings, but this type of insurance is relatively inexpensive and will be discussed in greater detail in the insurance module.

The third advantage to renting is that you have the ability to move when your lease is up. You don't have to worry about selling your home. Normally, all you have to do is give the landlord (the owner of the building) ample notice that you plan to move at the end of your lease, and that's it. Most leases require 30 days notice when you intend to move at the end of the lease.

Another advantage to renting is that you generally have less work in maintaining a rental unit. When something breaks, the landlord is usually responsible for fixing or replacing it. The landlord also takes care of maintaining the lawn and any common areas of the rental property. Common areas are facilities that all tenants, or renters, may use, such as a pool, workout facility, laundry area, stairwells, parking lots, etc.

The final advantage to renting a residence is that you will need less "up-front" cash to move in. Most apartments require first and last months' rent and a security deposit. Sometimes the second month's rent is considered the security deposit. If your rent is \$800 per month, then you would need a minimum of \$1,600 to rent the residence. Some rental properties also charge an application fee when they are considering you as a tenant. This could add another \$100 or so to your initial outlay of cash.

Disadvantages of Renting

- **Never gain equity**
 - Subject to rent increases
 - May be denied renewal of lease
 - May have to deal with poor or no repairs
- **Limited or no ability to personalize residence**
- **No tax advantage**



When you rent a residence, there are several disadvantages that you need to know about. First, since you don't gain any equity or ownership in your residence, you basically have very little control over your home. The money you pay in rent is going into the landlord's pocket, and you get nothing except a roof over your head. The landlord makes the rules. You may have your rent increased each time your lease is renewed. Some rental agreements allow the landlord to increase your rent at any time as long as you are given proper notice. Many leases only require a 30 day notice. This can play havoc with your budget! Be sure to read your lease very carefully before you sign it so you are aware of when and how your rent can be increased. Also, because you do not own your residence, the landlord has the authority to decide if you will be allowed to remain in the residence after your lease expires. In other words, the landlord can tell you that your lease will not be renewed, and you will have to find a new place to live when your lease ends. If you like your rental property, too bad. The landlord has all the power in deciding if you go or stay at the end of the lease. Without ownership, you also have to depend on the landlord to make repairs. This can be a slow process. It may take a long time to get things fixed or replaced. You have little recourse when the landlord is slow to fix things, especially if they are non-essential repairs. You also have little recourse if the repairs are done poorly or not at all. If the building meets the city's requirements for habitability, then it may be difficult to get the landlord to make repairs.

The second disadvantage to renting is that you have very little, if any, ability to personalize your residence. Do you want to paint your bedroom blue? You can't paint anything without the landlord's permission. Even if permission is granted, you will probably have to repaint it white when you move out. All of this has to be done at your own expense. You have to get permission to hang wallpaper, change a light fixture, paint, etc. If permission is not granted, you are not allowed to make the change. Why? It's not your property! You own nothing. If you change something without permission, the landlord can require you to leave because you violated the lease or retain your security deposit.

The third disadvantage is that you receive no federal tax advantage for renting. Homeowners get to take advantage of tax savings for the interest they pay on their home loans. Again, you own nothing, so you don't get a tax break. You are just a tenant! When you own a home, taxes are reduced and some of the money you pay for your mortgage, or home loan, is returned to you in the form of home equity.

Advantages of Buying

- **Over time, mortgage balance decreases and equity increases**
- **Ability to personalize residence**
- **Tax advantages**
- **As equity increases, eligibility for equity loans increases**
- **Pride of ownership**



Owning a home is the American dream for many people, and there are many advantages to buying a home. The first advantage is that as you pay on your loan, you owe less money so you own more of your home. This is called equity. In addition, a home is usually an appreciating asset. In other words, it increases in value. As your home value increases and your loan obligation decreases, your equity in your home grows. Eventually, you will own more of your home than you owe!

The second advantage is that since the home belongs to you, you can do with it as you please. You can paint, remodel, add to it, and wallpaper as much as you want! You get to choose the decorations. If you don't like something, you can change it. You have total freedom in your home.

The third advantage is the tax advantage. The federal government encourages home ownership by offering tax incentives to home buyers. The interest you pay on your home loan each year may be deducted from your taxes. This reduces your federal tax bill. Property taxes that come with home ownership can also be taken as tax deductions. Although a mortgage payment is usually higher than a rent payment, over time, the tax advantages can even out the increased cost each month of owning a home versus renting a residence.

Fourth, once you have built up enough equity in your home, you can apply for a home equity loan or a second mortgage. The benefit to these types of loans is that they have lower interest rates than credit cards or other types of debt and they also give additional tax deductions. Be careful though, if you fail to pay these loans, you could lose your house since it is the collateral, or security for the loan. This is called foreclosure.

Finally, by owning a home, you have the pride of ownership. You can show off your decorating and landscaping talents to friends and family because the home is yours!

Disadvantages of Buying

- **Variable costs**
- **Equity may decrease or remain constant**
- **Must sell, in most cases, to move**
- **All maintenance costs are owner's responsibility**
- **Larger initial investment**



There are some disadvantages to the American dream of home ownership. The first is that costs can vary in home ownership. The value of your home will change as time goes by. Property values usually increase. This will increase the amount of your property taxes. If you have a fixed mortgage rate, your monthly payment amount will not increase, but other bills may increase. Utility bills will change based on the weather and amount of usage. If it is cold and you have a gas heating system, your gas bill will be higher. If it is hot, your electricity bill will increase because of the air conditioning. As your home ages, it will need repairs and maintenance. These costs are paid by the homeowner. Changing bills can make budgeting difficult. You will need to allow extra money in your budget for repairs and maintenance.

Second, as the housing market changes, your equity in your home may change as well. If the value of your home decreases, your ownership decreases because if you sold your home, the amount you would receive after paying off your loan would be less. The changes in the housing market can increase or decrease your home equity. Decreases in home values may affect your ability to get a home equity loan.

The third disadvantage is that if you decide to move, you cannot just give notice to the bank and stop paying your loan like you can with a rental property. You must usually sell your home to move. The only other option is to rent it to someone else. Suppose your company wants to transfer you to another city. You will need to sell your home so that you can move to the new city. Most people can't afford to pay two house payments. If the housing market is slow, it may be difficult to sell your home. It can sometimes take months to sell a home. Everything depends on whether or not there are buyers out there!

Fourth, since you own the home, all repairs and maintenance costs are your responsibility. If something breaks, you either have to fix it yourself or pay someone else to come in and fix it. If the dishwasher breaks and spreads water all over your kitchen, you may have costly repairs for a new dishwasher and possible repairs to the kitchen floor and cabinetry if there is water damage. If you want grass in your yard, you will have to buy the grass seed and fertilizer to make that happen. You will also have to either pay someone to do the work to plant the grass or invest your own time to make it happen. Homeownership can be very expensive. It takes a lot of planning and budgeting to make it work.

Finally, when you decide to buy a home, there are many costs involved with the purchase. Banks require a down payment on your loan. This can be as much as 5% to 20%. If you are getting a \$150,000 home loan, the down payment could be as much as \$7,500 to \$30,000. In addition, there are closing costs associated with a home loan. These are the costs for acquiring the loan. Closing costs can add another several thousand dollars to your out-of-pocket expenses. Most people save for years before they can afford a home of their own.