

FEDERAL RESERVE BANK OF RICHMOND

# Renting vs. Buying a Home

How will you put  
down stakes?

## Inside:

- A wagonload of financial and personal factors
- Provisions to support your decision

**ALSO INSIDE:** Final tips before staking your plot

## GO WEST! EXPAND THE FRONTIER OF YOUR HOUSING DECISION

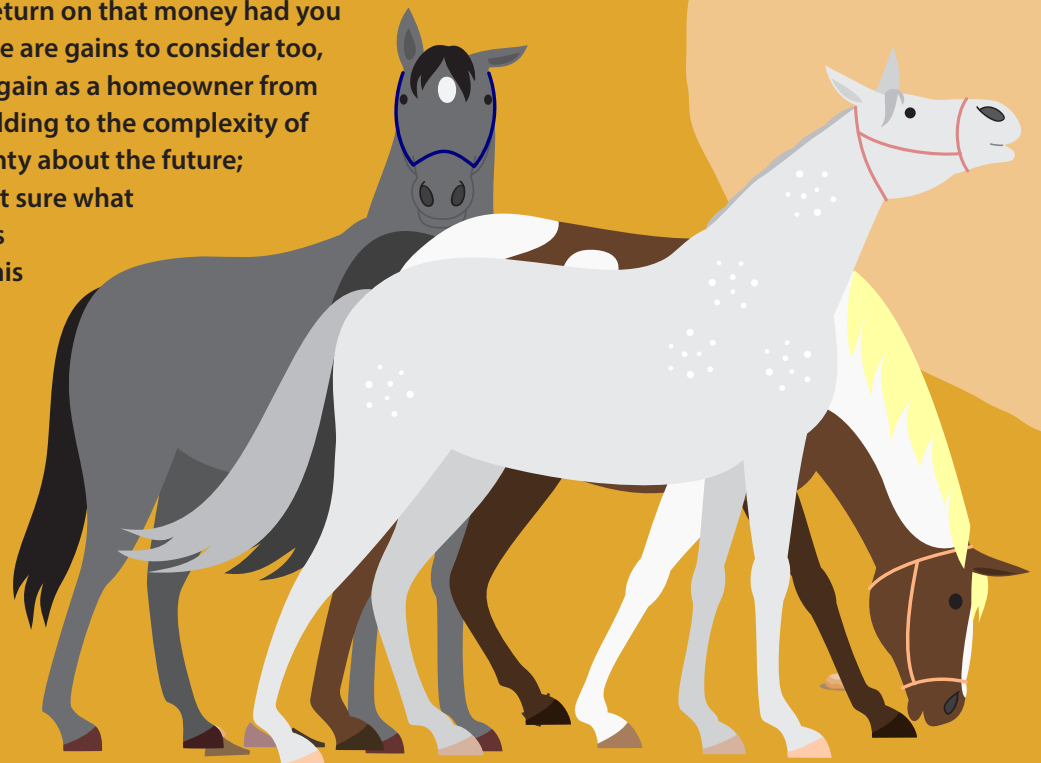
Are you ready to put down stakes? This westward journey-themed issue of *5E Navigator* takes you on an exploration of the rent versus buy decision, helping you settle at a residence of your choice. Travel west with us to find information on the risks and rewards of renting and buying and identify the factors that are most important to you.

Begin your journey at the *Jumping Off Point* of the rent versus buy decision. Then, join the *Wagon Train* fully loaded with the many financial and personal items you'll need along the trail. Restock your *Provisions* so you have additional supplies on hand to help you evaluate your choices. Finally, stop at the *Overlook* to take a final survey before staking your plot.

### JUMPING OFF POINT: STARTING DOWN THE RENT VS. BUY TRAIL

Renting and buying are two different ways of paying for a place to live and the amenities that come with it. Because everyone's circumstances and preferences differ, there's a fork in the trail: renting is a fit for some, just as buying is for others. Choosing which fork to take is one of the biggest and most complex financial decisions you'll face. So, how do you figure out what's best for you?

It's not enough to simply compare a potential mortgage payment to a rental payment. To get a full account of the costs, you also have to consider *opportunity costs* – that's what you give up when making a particular choice. For example, by putting a down payment on a home purchase, you're giving up the opportunity to earn a return on that money had you rented instead. But there are gains to consider too, including the potential gain as a homeowner from the equity you build. Adding to the complexity of the decision is uncertainty about the future; you can't be 100 percent sure what lies around the bend. As you'll see throughout this issue, a wagonload of factors can determine which choice is better for you.



## WAGON TRAIN:

# TAKING STOCK OF FINANCIAL AND PERSONAL FACTORS

Evaluating whether to rent or buy a home involves packing together a lot of considerations, many financial and others more personal. For example, the longer you set up camp in the same place, buying tends to be the cheaper option because the initial costs are spread over time. But if you place a high value on mobility, you may instead prefer to rent shelter along the trail. As you set out on your journey, take stock of all the financial and personal factors involved. Then, load up on additional provisions to help you make your decision.



Time in home  
Closing costs  
Mortgage terms  
Maintenance and fees  
Home price and expected changes  
Rent price and expected changes  
Insurance

Taxes  
Inflation  
Alternative investment returns

### Control over property

Is it important to you to have the freedom to add a fence or a shed as a homeowner, or are you okay with having little control as a renter?

### Motivation for maintenance

Are you willing to assume the responsibility for maintaining your land and home as an owner, or do you prefer a landlord to handle it?

### Flexibility of funds

Are you comfortable putting your dollars toward a down payment for a home purchase, or do you prefer to rent instead and use those dollars for other purposes?

### Tolerance for risk

Can you tolerate unexpected changes in your home's value as an owner? How about unexpected changes in your rent as a tenant?

### Desire for mobility

Are you okay remaining on the same plot for a while as an owner, or do you desire to move camp as a renter?

## PROVISIONS: EQUIPPING YOURSELF FOR THE HOME STRETCH OF YOUR JOURNEY



### What information do I need to gather to make a decision?

Check out the “Rent or Buy Checklist” on [MajorFinancialDecisions.org](http://MajorFinancialDecisions.org) for a list of the information you’ll need to compile.



### How can I compare renting and buying options?

For a financial comparison of renting and buying, check out the “Is It Better to Rent or Buy?” calculator at [nytimes.com](http://nytimes.com). And for a calculator that considers various future scenarios, visit the “Rent or Buy Calculator” at [clevelandfed.org](http://clevelandfed.org).



### How does my credit history affect my options?

Whether you plan to rent or buy, your credit history can affect whether you can settle at the place you want and what terms you’ll be offered. For more information on checking your credit history, explore “Credit Reports: Have You Checked Yours Lately?” at [richmondfed.org](http://richmondfed.org).

## OVERLOOK: FINAL SURVEY BEFORE STAKING YOUR PLOT

Once you’ve gotten a handle on the financial and personal costs and gains of renting versus buying, and you’re ready to make a decision, head to the overlook to take a final survey of the landscape before you settle.

1. Budget for your housing expenses, including your rent or mortgage payment, potential taxes, insurance, utilities and other related spending.
2. Know your rights as a mortgage borrower or a tenant in the state you live.
3. Check your credit history and score before shopping for mortgages or talking with a landlord.
4. If you need financial assistance, check to see if you qualify for home-buying or rental assistance programs.
5. Carefully review mortgage terms or lease agreements before you sign.

*For more information on getting ready to rent or buy, visit [hud.gov](http://hud.gov).*

## CONFLUENCE: THE FEDERAL RESERVE AND THE RENT VS. BUY DECISION

Making the decision to rent or buy a home is an individual choice. There’s no right decision for all people. Your decision depends on economic variables like home and rent prices, as well as personal factors such as your tolerance for risk. Through its financial education efforts, the Federal Reserve provides information that enables individuals to make informed choices about major financial decisions such as renting versus buying a home.

### For more information, visit:

[majorfinancialdecisions.org](http://majorfinancialdecisions.org)  
[richmondfed.org/education](http://richmondfed.org/education)  
[federalreserveeducation.org](http://federalreserveeducation.org)

## MISSION

*5E Navigator* provides **economics**-based information and tools in an **engaging** format to **educate** and **empower** people to **evaluate** their choices for important personal financial decisions. The information in *5E Navigator* is collected and developed by the Economic Education team at the Federal Reserve Bank of Richmond to serve as a resource for financial literacy practitioners, educators and the public.

[richmondfed.org/publications](http://richmondfed.org/publications)

**Feedback? Mail to:**  
[econed@rich.frb.org](mailto:econed@rich.frb.org)

