

Ask Yourself: Rent or Buy?

65%

» Percentage of Americans who prefer owning a home versus renting.
—Fannie Mae's *National Housing Survey*

Rainy Day Fund

Annually set aside 1 to 3 percent of your home's original sales price for maintenance and repair costs.

Home prices and mortgage rates are near historic lows, so why wouldn't you want to buy your first home? The answer to that question really depends. It depends on three very important questions you must ask yourself:

1. Is it the right time for you and your family?
2. Is it the right house for you?
3. Can you really afford this house?

Number One: You've heard "there may never be a better time to buy," but the reasons should have more to do with you and your family's situation than the market. Yes, prices are low—the statewide median price of an existing single-family home stood at \$306,230 in April—but tighter lending requirements have made it harder to qualify for a home loan. Bottom line: You'll need a larger down payment and a higher FICO score.

Interestingly, declining home prices have made the differential between buying and renting—significant in years past—minimal in some regions (see figure 1 above).

Of course, homeowners qualify for tax

Rent Versus Buy — Total Housing Costs*		
Renting Versus Buying	Buying	Renting
Mortgage Payment vs. Rent	\$1,310	\$1,760
Taxes & Insurance	\$350	\$0
Total Monthly Housing Cost vs. Total Rent	\$1,660	\$1,760
Home Buyer Monthly Savings	\$100	

Figure 1

breaks, most notably the mortgage interest and property tax deductions. Here's an example of one scenario; yours, of course, will differ (see figure 2).

Number Two: Only you can truly answer this question!

Number Three: To be sure, the recession illustrates that renters need to consider not just their desires, but also their financial realities before purchasing a home. Buying a home is a big financial responsibility—the biggest one you'll ever make—and one that protects you against rent increases. A home represents stability, the place where you want to settle down for at least five to seven years and raise your family, if you are inclined. Bottom line: You don't want to take on more square footage than you can maintain and enjoy.

Still not sure? This simple online survey (www.bankrate.com/calculators/mortgages/rent-or-buy-home.aspx) can help and so can your financial planner.

And when you are ready, of course, seek out a REALTOR®. ♦

Paula Hess is senior editor for California Real Estate magazine.

Figure 2

Rent Versus Buy — Tax Benefit Analysis*		
Year 1	Buyers	Renters
Household Income	\$66,450	\$66,450
Standard IRS Deduction Married Filing Jointly	n/a	\$11,400
Mortgage Interest Deduction	\$12,200	n/a
Property Tax Deduction	\$3,030	n/a
Total Deduction	\$15,230	\$11,400
Total Taxable Income	\$51,220	\$55,050
Total Tax Liability	(\$7,680)	(\$8,260)
Home Buyer 2010 Tax Savings	\$576	

*Assumptions: The payment, interest, taxes, insurance (PITI) based on median price of \$303,460 in the 4th QTR 2009; 5.06 percent fixed-rate mortgage interest rate; 20-percent down payment; and a \$242,168 loan amount. The monthly rent is derived from RealFacts 4th QTR 2009 estimates for an average three-bedroom, two-bathroom unit. Incomes are based on assumptions for the CALIFORNIA ASSOCIATION OF REALTORS'™ Traditional Housing Affordability Index. The same income is used for both renters and buyers and is assumed to be the Minimum Qualifying Income needed to purchase a median priced home in the 4th QTR 2009.

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