



Buying vs. Renting a Home: Are You Getting the Right Advice?

The average person moves residences about 11 times in their lifetime. That provides a lot of opportunity to confront the following question: is it better to own your home or to rent it? It's a huge decision that affects your lifestyle as much as it does your finances, and the answer will vary depending on who you ask. There are compelling arguments to be made for both sides and the resulting advice—though well-intentioned—can quickly become confusing and contradictory. So, is paying rent really just a waste of money? Or is it true that you can make more money by renting than by owning a home? Take a closer look at six snippets of common owning-versus-renting advice:

Better off buying

“Owning a home is an investment”

While it's true that you can profit from the eventual resale of your home, homeowners who offer this advice often imply that owning a home is the best investment. Although some real estate ventures do pay off, owning a home is not a guaranteed investment. Historically, housing prices tend to increase only slightly more than the level of inflation and are often outperformed by other investments such as stocks. Your property's value can also be influenced by factors completely outside of your control, like the market value, the desirability of your neighbourhood and the demand for housing in your city. Furthermore, when evaluating their investment, homeowners tend to compare the current value of their home to the original purchase price only and, in doing so, ignore all the money they've spent on interest, taxes, insurance, repairs, maintenance and improvements over the years. The result is a distorted view of their return on investment. A better approach is to think of your primary residence as your home first and foremost and not strictly as an investment. Enjoy your time living in it and supplement home ownership with other investment types.

“By paying rent, you're throwing your money away”

This advice usually comes from homeowners who place importance on home equity. Home equity is the portion of a home's current value that the owner possesses. Every time a homeowner makes a mortgage payment, the portion of the payment that goes toward the principal of the loan increases the amount of home they own (and decreases the amount of home their lender owns). Every mortgage payment therefore contributes

to a homeowner's equity. By comparison, paying rent doesn't seem to accomplish much—the entire payment simply goes to your landlord.

Just because you're not building equity doesn't mean you're throwing your money away. Homeowners have a vested interest in building equity in their homes in order to someday profit from the value of their home. As a renter, you get to bypass all the stress and speculation that comes with treating your home as an investment. Your rent payment is simply the exchange of money for a place to live. If you find value in that exchange (however you choose to define it), then you're not wasting your money.

“Mortgage payments are cheaper than monthly rent”

Depending on where you live, the amount you pay for monthly rent may be higher than the amount you would spend monthly on a mortgage for a similar property. The comparison might entice you with visions of owning a home, but it doesn't paint the complete picture. As a homeowner, your mortgage payments represent only a fraction of your monthly spend. When you average out property taxes, insurance, homeowners association fees, and repair and maintenance costs, the monthly price of home ownership jumps up significantly. Comparing mortgage payments to rent payments without factoring in additional costs can be misleading.

Better off renting

“Renters don't pay taxes, insurance or maintenance costs”

While it's true that your expenses are considerably simpler as a renter—rent, utilities and contents insurance usually covers it—you're not completely shielded from the costs associated with home ownership. As a renter, you don't have to pay for property taxes or major repairs—but your landlord does, and your landlord can pass those costs on to you by increasing your rent as the months and years go by. When you rent your home, you get to skip paying for things like taxes and repairs upfront, but keep in mind that those costs can still affect your finances in the long term.

“Renters make more money in the long run by investing the money they would otherwise spend on a mortgage”

This advice is the renting counterpoint to treating your primary residence as a way to grow wealth (see “Owning a home is an investment”, above). Some renters will proudly declare that, by investing the difference between their monthly rent and what a monthly mortgage payment would cost them, they stand to make more money in the long term than homeowners. While this can be the case, it's not *always* the case. The main challenge is ensuring that the money actually gets invested—it's very easy to take the money you save by renting and spend it on goods and services instead.

“You can't afford to own a home without saving up a down payment of 20%”

Affordability seems like a compelling reason to choose renting over owning a home. Buying a home is expensive and requires a large amount of capital upfront. That said, your ability to come up with a 20% down payment is not an accurate assessment of whether or not you can actually afford to buy a home. It's possible to make a large down

payment, and then fail to keep up with your mortgage payments. Furthermore, even though a large down payment has its advantages, you can still purchase a home with only 5% or 10% down. Don't assume that home ownership is out of reach simply because you don't have that 20% saved up yet.

Seeing past the advice

When your friends and family offer you advice on renting and home ownership, they truly want the best for you. However, whether it's better for you to rent or buy a home ultimately depends on a completely unique combination of your financial situation, your personal goals and a long list of variables, including your geographical location. Do you need the mobility that renting provides you with, or are you ready to settle down for the foreseeable future? Does having the ability to customize and renovate your property justify the added expense of home ownership? Does your home need to be within a certain range of your workplace, school or other commitments? Is your home more of a sanctuary, or just a place to rest your head? By taking the time to fully understand your needs and your priorities, you'll be able to cut through the conflicting advice and make the decision that's right for you.