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Deciding Whether To Rent Or Buy A House

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Summary: Deciding Whether To Rent Or [Buy A House](#)



If you are thinking of buying a home, you might want to consider whether you are better off renting or buying a house. As the real estate market has changed, many would be home buyers have become home renters and many renters have decided to go and buy a home. But the decision whether to buy or rent a home can be an emotional decision but a would be home buyer or home renter should also make the [financial](#) decision whether he or she is better off buying or renting a home.

Deciding Whether To Rent Or Buy A House

Are you trying to decide whether to rent or buy your next home?

Due to the financial devastation caused by the recent recession, more Americans seem to be thinking about renting rather than buying their next home. According Experian's Hitwise, the number of people visiting real estate websites dropped 22 percent. But visits to home and apartment rental websites increased 45 percent.

Hitwise also found that the most popular term ranked by overall share of search clicks is "apartments for rent," which is up 162 percent from two years ago.

According to Peggy Abkemeier, president of Rent.com, whether you decide to rent or buy your next home depends on four key factors: How much you'll pay to either rent or buy and the difference between the two; lifestyle factors; where you are in your career; and, what your long-term financial obligations will be.

1: Rent Ratio. Abkemeier says that a common way of comparing the financial decision to rent or buy your next home is to create a rent ratio for your neighborhood.

Although it sounds complicated, the math isn't too hard: Simply take the cost to buy the home you'd want to live in and divide that number by the amount of rent you'd have to pay to rent a similar home in the same location. For example, if you're looking at 3-bedroom, 2-bath home that costs \$500,000 to buy, but you can rent a similar home in the same neighborhood for \$24,000 per year, the rent ratio is about 21.

“Experts vary in opinion where the tipping point is, but most agree that it is a rent ratio of 15 to 20. The higher the ratio, the higher a spike in housing prices you’d need in future years to justify the price you’re spending to buy the property,” Abkemeier explains. So if the rent ratio is 34, then you’d probably want to rent. If the rent ratio was 13, you might want to buy.

Just remember that the rent ratio only looks at the cost of purchasing the property. It doesn’t include property taxes, insurance, maintenance and upkeep, all of which could tip the scales back toward renting, Abkemeier adds.

2: Lifestyle Factors. Where do you want to live? What kind of amenities would you like to enjoy?

If you want to live on the beach, you have to understand that the beachfront property you love, though highly sought after by other buyers and renters, may not be located in a good school district. That might be fine for you, if you’re not married with kids.

But if you’re married and are thinking about having kids, you may want to rent a beach house for a couple of years to enjoy those amenities, and then buy a house in a great school district when your kids are old enough to need it.

3: Career Stability. These days, there’s little point in buying property if you can’t stay that home for at least 5 to 10 years. It’s possible that home prices won’t appreciate for years in some parts of the country. And even if home values do rise, it will likely be a slow rise, rather than an 80 percent stock-market-like jump.

Career stability is an important factor to consider. If you like where you are, and feel you’ll have a job there over the long run, then you might want to look for a home to buy near where you work.

But if you’re hankering for a transfer, or if your job requires that you move every few years, you might wind up losing money on a property you buy. In this case, renting makes more sense, even if the rent ratio is below 15, Abkemeier notes.

4: Long-Term Financial Obligations. The rent ratio, lifestyle and career stability might all work in favor of buying. But if you have long-term financial obligations on the horizon, you might want the flexibility a rental lease would bring.

For example, Abkemeier notes that some children may have elderly relatives they’ll have to help out over the next decade or two. If you buy a place, but suddenly find yourself caring for a parent who can’t climb stairs, you might have to sell your home and lose money.

Renting could allow you the flexibility to find the right property for now, and then find something else that will work better for everyone in your life in years to come.

If you’re trying to decide whether to rent or buy your next home, take some time to run the numbers and consider your options. One thing is sure: There’s plenty of housing to choose from whether you rent or buy.

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