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# Benefits of buying a home, or renting

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This is an increasingly common question in our financial planning practice. We find that most of the families we deal with (including some of our own) think that rent money is “thrown away.” This belief is often quite wrong.

When you add up the cost of owning a property, you will find that it is at least eight percent of the total cost of the home. This is true regardless of whether you pay cash or finance the entire amount (if you use your own cash, there is an “opportunity cost” of not having it invested and making money elsewhere . One way or the other, you are laying out forty thousand a year to live in a half million dollar house.

From a strictly financial viewpoint, if the cost to rent is less than the cost to own, renting is just fine. If you can rent that half million dollar house for twenty five hundred dollars a month (thirty thousand a year), you can assume the owner is paying you ten thousand a year to live in their residence.

I have a daughter in New York City paying \$2,400 in rent for an apartment that sells for over \$800,000. That’s a rental bargain in my view.

What are the downsides of renting? Well, if the rental cost is more than ownership, it might be better to own (not always, see below). If you don’t want to take the chance of being forced to move, then renting may not be for you.

Additionally, you may not find the place you want to live if limited to the rental market in your locale. Renters lose out on the appreciation of home prices. But we’ve seen over the last decade that residential real estate tends to be a lousy investment (even over the long run). Another downside is that rents tend to increase every year, whereas technically a mortgage should not. However, many mortgages do indeed increase in cost with inflation and time, and the other costs associated with ownership (repairs, maintenance, insurance, property taxes) inexorably rise.

What are the upsides of renting? Certainly the financial advantage discussed above. Another reason is that it gives you the flexibility of living in an area

without being tied down. It is not unusual at all for a family to decide to live in a different town or at least a different area of a town after first moving there. Consider the value of calling the landlord when something is broken as another powerful incentive to rent instead of own.

The point is that we should not reflexively think that renting is a mistake. For many, it makes great sense.

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