

## Renting Versus Buying

### Renting: Pros and Cons

Renting means **paying money to live in a dwelling that is owned by someone else**. Landlords (owners) offer renters (tenants) many types of housing, furnished or unfurnished and in all prices.

#### *Advantages of Renting*

- Predicable Housing Cost – Renters typically know what their monthly housing will be.
- Limited Maintenance – limited maintenance responsibilities involved. Yard work, snow removal, painting and household repairs the responsibility of the landlord.
- Mobility – Some people do not want to commit themselves to the long-term responsibilities of home ownership

#### *Disadvantages of Renting*

- Limited Freedom and Control – Renters may have little or no voice in how the building is managed or maintained. They often do not have freedom to make changes in décor without getting permission for the landlord.
- Lack of Permanence – Tenants may move in and out so often that there's no feeling of permanence or belonging.
- Financial Disadvantages – Money spent on rent is not applied toward ownership. Also a landlord will often raise the rent and the renter must pay the increase.

## **Buying: Pros and Cons**

Owning a home has been a traditional dream for many people because it offers a unique sense of satisfaction. The purchase of a home is a major decision, regardless of the type of housing.

### *Advantages of Home Ownership*

- **Feeling of Belonging** – Home ownership provides a feeling of stability and a sense of “putting down roots.” Many homeowners develop a sense of community awareness and responsibility.
- **Independence** – Most homeowners are free to adapt their homes to meet their needs. They can redecorate to suit their tastes or remodel as the household grows or as their needs change.
- **Investment Value** – Buying a home is an investment. The cost of the home and the money put into maintaining it are not lost, as they are with renting. The homeowner is exchanging one form of wealth (cash) for another (real estate).
- **Good Credit** - Making monthly payments to a bank or institution establishes a good credit record.

### *Disadvantages of Home Ownership*

- **Unexpected Expenses** – Many maintenance expenses arise without warning and need immediate attention.
- **Time Spent on Maintenance** – The owner of a home is responsible for the day-to-day and the week-to-week upkeep. These tasks take time and must be repeated often. (yard work, gardening, painting, etc.)
- **Limited Mobility** – Buying a home should be considered a long-term investment.

## **A Closer Look at Costs**

Finances are a major factor to consider when deciding whether to rent or buy. Both buyers and renters need to consider two types of costs. The initial costs that must be paid once while the continual costs that must be paid every month or year.

### ***Renter's Initial Costs***

Many renters do not realize that they need to set aside some cash for the initial expenses of moving into rental housing. Typical initial costs include:

- **Application Fee** – A fee may have to be paid when filling out an application to live in a unit.
- **Credit Check Fee** – A credit check tells the landlord whether the renter pays bills on time and whether or not there are large outstanding amounts charged on credit cards.
- **Security Deposit** - A renter is usually required to pay a **security deposit** (a fee that covers the cost of any damage the renter might cause to the unit). The deposit may be equal to one or two month's rent. The deposit is returned if the unit is left in good condition.
- **Advance on Rent** – Some landlords require payment in addition to a security deposit. A renter may pay one month's rent (or more) in advance before moving in.
- **Moving and Other Costs** – Professional movers charge a fee to move furniture and other household goods. There may be one-time fee for installing or turning on any services that are the tenant's responsibility.  
i.e. Telephone service, electricity, or cable

### *Renter's Continual Costs*

- Monthly Rent – Rental cost depend on many factors such as the size of the unit, the age of the building, and the services that are included.
- Insurance – Tenants should purchase **renter's insurance** (a policy that covers their personal property against loss by theft, fire, or other hazards).
- Utilities – Costs for services such as water, natural gas, electricity and trash collection may be paid by the landlord or included in the rent or must be paid for by the tenant. If tenant's responsibility money needs to be set aside for these costs each month.
- Parking – Some rental units charge a fee for garage space.

### ***Buyer's Initial Costs***

The initial costs of buying a home are usually much higher than those involved in renting. Most people must borrow part of the money to pay for a home. A number of costs associated with financing a home arise at the time the purchase is made.

- Earnest Money – **Earnest money** (is a deposit that a potential buyer pays to show that he or she is serious about buying a home). The money is held in trust until the deal is final. When the deal goes through, the earnest money is applied toward the payment of the total price.
- Application and Credit Check Fees – Before loaning money banks and financial institutions check the buyer's credit to see whether that person is a good risk.
- Inspection Fees – It is wise to have a home inspected before buying. Professional home inspection companies check the structure, the roof, and the plumbing, electrical, and heating system.
- Down Payment – Potential buyers are usually required to make a down payment (a deposit of cash) at the time of purchase. The down payment (%) varies depending on the financial institution.
- Closing Costs – Buyer's are required to pay all or part of the **closing costs** (fees due at the time the purchase is finalized).
- Moving and Other Costs – i.e. Expenses of moving and connecting utilities.
- Land Registration Fee (if house hasn't been sold since 1998) - \$1000
- Legal Fees (\$1000)

### ***Buyer's Continual Costs***

- Monthly Mortgage Payment – A **mortgage** (home loan) is long term. A monthly payment includes two components. They are the **principal** (the portion of money paid to reduce the original amount of the loan) and the interest (a portion of the fee that the lending institution charges the buyer to borrow the money).
- Taxes – Homeowners are required to pay real estate, or property taxes which is often added to the monthly mortgage payment. Taxes are based on the value of the home and are used to pay community services as schools, libraries, street repairs and parks.
- Insurance – Homeowners should carry household and liability insurance.
  - **Household insurance** - covers the cost of repairing or replacing objects damaged by fire, theft, or other hazards.
  - **Liability insurance** – covers any claims filed against the homeowner by persons who are injured on the property.
- Utilities .  
i.e. water ,telephone. electricity, gas ,oil trash collection cable
- Maintenance – Homeowners are responsible, directly or indirectly for the cost of upkeep on their property.

## What Can You Spend on Housing

Careful planning can help you obtain affordable housing that meets your needs. Taking a close look at your finances can help you determine how much money you can spend.

### Analyzing Your Finances:

Keep records of your current finances:

- **INCOME:** Income is the money received for work done for from investments made. It is important to determine monthly and yearly income.
- **EXPENSES:** There are two kinds of expenses: fixed and flexible.  
*Fixed expenses* must be paid regularly and the amount is fairly Constant. i.e. rent  
*Flexible expenses* vary in amount and do not occur regularly. i.e. clothing
- **SAVING:** Plan for unexpected expenses. Without savings, it can be difficult to cope with unplanned needs

To strengthen your finances follow these ideas:

- Make a Budget
- Set aside saving first
- Reduce flexible expenses
- Reduce current debt
- Limit impulse buying
- Keep record of how much you are spend and how you are spend your money

Knowing exactly where your money is spent can give you better control in using available financial resources to deal with expenses.

### Other Resources

Human resources can be used to lower the costs of buying and maintaining housing:

1. People who are willing to invest time, energy, and talent in their homes can save money and at the same time increase the livability of their home
2. Some people save by completing their own home repairs and maintenance.
3. People who are skilled in sewing or in carpentry can make things for their homes that might be expensive to buy.

## Buying vs. Renting

First, choose a scenario (situation) for your buying vs renting research.

- You are a single person looking to live near a university in Canada (choose any town or city).
- You are married and the two of you are looking for a new housing arrangement.
- You are a family of 5 (Mom, Dad and 3 kids) looking for new housing.
- You are a retired couple (2 people) looking for new housing in Canada.

Second, go online and find one example of housing you buy and one example of housing you rent, based on your scenario.

Both the buying and renting housing **MUST** be in the same general location (town or city).

Length: 150 words

Photos: At least one for buying and one for renting.