NO PREP

# Renting vs. Buying

## Understanding Your Options

**Includes:** Student reading, case study, differentiated questions, teacher key

Name: Period: Date:

# Renting vs. Buying: Understanding Your Options

### Two Ways to Get a Roof

There are only two basic ways to occupy a home in the United States, and the difference between them is ownership rather than quality. A renter pays a landlord for the right to use a property for a set period without owning it. An owner holds legal title to the property, usually while paying off a loan called a mortgage that used the property itself as collateral. Everything else that people argue about, including which one is throwing money away, follows from that single distinction. The cultural pressure runs heavily toward buying. Many students arrive in a FACS class already convinced that renting is a waste and that a real adult buys a house as soon as possible. That belief is not exactly wrong, but it is applied far too broadly and it causes real damage when someone buys three years too early. Financial professionals treat the question as situational rather than moral. The correct answer depends on how long a person expects to stay, how stable their income is, how much cash they have available today, and what housing costs in their particular market. A

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## The Real Cost of Renting

Renting costs are relatively simple to see, which is one of its underrated advantages. A renter pays a security deposit up front, typically equal to one month's rent and sometimes more, plus the first month's rent and occasionally the last month as well. That means moving into a place renting for nine hundred dollars often requires eighteen hundred to twenty-seven hundred dollars on day one. After that, monthly costs are rent plus whichever utilities the lease assigns to the tenant. Renters

insurance, which covers a tenant's belongings and liability, has typically run fifteen to thirty dollars a month and is often required by landlords. What a renter does not pay is the part people forget. The landlord absorbs property taxes, the cost of a failed water heater, roof replacement, structural repairs, and the appliances that come with the unit. When the furnace dies in February, the renter makes a phone call rather than writing a four thousand dollar check. Renting also carries a real and underrated asset called mobility. A renter at the end of a lease can leave for a better job in another city with thirty to sixty days of notice. The trade-offs are equally real. Rent can rise at renewal, the landlord may decline to renew at all, and monthly payments build no ownership stake. A renter who pays for ten years owns nothing at the end of it. Renters also have limited control over the property itself, since painting, replacing fixtures, or renovating generally requires landlord permission, and improvements a tenant pays for stay with the building when the lease ends.

**What Owning Actually Costs**

Buying costs are larger, less obvious, and where most first-time buyers get surprised. The down payment is the cash paid up front, historically twenty percent of the purchase price, though many loan programs have allowed far less, including three to five percent for conventional loans and three and a half percent for FHA loans. Buyers who put down less than twenty percent usually must pay private mortgage insurance, which protects the lender rather than the buyer and adds a monthly charge. Closing costs, which cover the appraisal, title work, loan origination, and recording fees, typically add another two to five percent of the price at signing. The monthly payment itself is commonly summarized as PITI, meaning principal, interest, taxes, and insurance, because a mortgage payment bundles the loan repayment together with property taxes and homeowners insurance. Then come the costs that never appear in the listing. Maintenance and repairs are widely estimated at one to four percent of the home's value each year, so a two hundred thousand dollar house implies roughly two to eight thousand dollars annually in upkeep averaged over time. Homeowners association fees apply in many neighborhoods and condominiums. Owning also removes mobility, since selling a home takes months and costs real money in agent commissions, traditionally around five to six percent of the sale price. Owners do gain control and stability in exchange, since nobody can

decline to renew their lease or raise the payment on a fixed-rate mortgage, and that predictability has real value across decades.

**Equity, Appreciation, and the Break-Even Point**

The case for buying rests on two ideas that are often confused with each other. Equity is the portion of the home the owner actually owns outright, calculated as the market value minus what is still owed on the mortgage. Equity grows two ways: by paying down loan principal each month and by the property gaining value. That second process is appreciation, meaning an increase in market value over time, and it is not guaranteed. Home values in the United States have risen over most long periods, but they fell sharply in many markets between 2007 and 2012, and owners who needed to sell during those years often owed more than the home was worth. Because buying carries heavy up-front costs, the crucial concept is the break-even point, meaning how long a buyer must stay before the advantages of owning outweigh the costs of purchasing and eventually selling. Financial analysts commonly place that point somewhere between three and seven years depending on the market, though it can be longer where prices are flat. The rule that follows is the most practical takeaway in this entire reading. A person who expects to move within about three years is usually better off renting, almost regardless of how strongly they prefer to own, because the transaction costs alone will consume any gains. Time in the property, not enthusiasm, is what makes buying work.

**Which One Fits Right Now**

Deciding between renting and buying is best done with a short list of honest questions rather than a general opinion about which is smarter. How long do I realistically expect to stay in this area, and would I still say that if a good job appeared elsewhere? Do I have enough cash for a down payment and closing costs while keeping an emergency fund intact, since buying a home with the last dollar available is how a broken furnace becomes a credit disaster? Is my income stable and documented, which lenders verify closely? Is my credit score strong enough to earn a competitive interest rate, since even a one percentage point difference changes the monthly payment substantially over thirty years? Am I prepared to handle maintenance myself or pay someone, because the landlord no longer exists in this arrangement? What is renting versus buying actually costing in this specific market, since the comparison varies enormously by city rather than following a

national rule? A person who answers those questions and finds stability, cash reserves, a solid credit profile, and a long horizon has a genuine case for buying. A person who finds an uncertain job, thin savings, or a likely move within a few years has an equally genuine case for renting, and choosing to rent in that situation is not a delay or a failure. It is the correct answer to the question actually being asked.

**Key Information: Comparing Renting and Buying**

| Detail | Information |
|---|---|
| Renter Up-Front Cost | Security deposit plus first month, often 2-3x monthly rent |
| Renters Insurance | Covers belongings and liability, about $15-$30 per month |
| Down Payment | Traditionally 20%; FHA loans allow as little as 3.5% |
| PMI | Private mortgage insurance, required under 20% down |
| Closing Costs | Roughly 2-5% of purchase price, paid at signing |
| PITI | Principal, interest, taxes, and insurance in one payment |
| Equity | Market value minus the amount still owed on the mortgage |
| Break-Even Point | Usually 3-7 years before buying beats renting |

**Case Study: The Ortegas Run the Numbers Twice**

**Marisol and Andre Ortega rent a two-bedroom for eleven hundred dollars a month and have saved fourteen thousand dollars. A house down the street lists for one hundred ninety thousand, and Marisol's brother keeps telling them renting is throwing money away. They price it out with a housing counselor at the credit union. A three and a half percent FHA down payment is six thousand six hundred fifty, closing costs run about six thousand more, and PMI adds to the monthly payment. That would leave them roughly fourteen hundred dollars in savings. The counselor asks one question they had not considered: how long do you plan to stay? Andre's employer has been hinting at a transfer to another state within two years. Marisol writes the number down and reads it back. Break-even is three to seven years, we might have twenty-four months, and our emergency fund would be gone. They renew the lease for one more year and keep saving. Andre tells his brother-in-law it is not a delay, it is the answer.**

1. The Ortegas would have about $1,400 left after closing. Using the reading, explain why that specific figure is a serious warning sign for a buyer.

2. Marisol compares a 3-to-7-year break-even against a possible 24-month move. Explain what break-even means and why the transfer changes their decision.

**Multiple Choice**

1. What does the reading say equity equals?

    a) Market value minus the amount still owed on the mortgage

    b) The original purchase price minus the down payment

    c) The yearly increase in all local property tax assessments

    d) The total of every mortgage payment made so far

2. Why is private mortgage insurance usually required on a loan?

    a) The home is older than thirty years at purchase

    b) The property sits inside a homeowners association

    c) The buyer chose a fifteen-year loan instead of thirty

    d) The buyer put down less than twenty percent

3. According to the reading, who is usually better off renting?

    a) Anyone who dislikes yard work and routine maintenance

    b) Anyone whose income has risen for three years running

    c) Someone likely to move within about three years

    d) Anyone whose credit score is above the national average

**Matching**

Write the letter of the correct definition on the line next to each term.

| Term | Definition |
|---|---|
| 1. ___ equity | A) Principal, interest, taxes, and insurance combined monthly |
| 2. ___ appreciation | B) How long an owner must stay before buying beats renting |
| 3. ___ PITI | C) Fees for appraisal, title, and origination paid at signing |
| 4. ___ closing costs | D) An increase in a property's market value over time |
| 5. ___ break-even point | E) The share of a home the owner holds free of debt |

**Fill-in-the-Blank**

1. A loan that uses the property itself as collateral is a _____.

2. Insurance protecting the lender when down payment is low is _____.

3. A rise in a home's market value over time is called _____.

**Short Answer**

Answer each question in 2-4 complete sentences.

1. Why does the reading call renting's mobility an underrated asset?

_____

_____

_____

2. Explain why the reading treats buying as situational rather than always smarter.

_____

_____

_____

3. Why can appreciation not be counted on the way loan paydown can?

_____

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