

Housing Costs Reference Sheet

Quick reference for comparing renting vs. buying costs and decisions

Cost Category	Renting	Buying
Upfront Costs	Security deposit (1-2 months rent), first/last month rent, application fee (\$25-\$75)	Down payment (3-20%), closing costs (2-5%), inspection (\$300-\$500), appraisal (\$300-\$600)
Monthly Payment	Fixed rent amount (may increase annually)	Mortgage payment (principal + interest), property taxes, insurance, PMI (if applicable)
Maintenance	Landlord responsibility (usually)	Homeowner responsibility (budget 1-3% of home value annually)
Utilities	May be included; varies by lease	All utilities are homeowner responsibility
Insurance	Renter's insurance: \$15-\$30/month	Homeowner's insurance: \$100-\$300/month (required by lender)
Tax Benefits	None	Mortgage interest deduction, property tax deduction (if itemizing)
Equity Building	None - payments build landlord's equity	Build equity over time as you pay down mortgage
Flexibility	High - can move when lease ends	Low - selling takes time and costs 6-10% of sale price

TOTAL COST OF RENTING

- Monthly rent payments
- Renter's insurance
- Utilities (if not included)
- Parking fees (if applicable)
- Pet deposits/fees
- Annual rent increases (avg 3-5%)

Advantages: Lower upfront costs, flexibility, predictable expenses, no maintenance burden

TOTAL COST OF BUYING

- Mortgage payment (PITI)
- HOA fees (if applicable)
- Maintenance and repairs
- Utilities (all)
- Lawn care/landscaping
- Home improvements

Advantages: Build equity, tax benefits, stable payments (fixed rate), customization freedom

Key Terms Defined

Security Deposit

Refundable amount held by landlord for damages; typically 1-2 months' rent

Closing Costs

Fees to finalize home purchase: loan origination, title insurance, attorney fees (2-5% of loan)

PMI (Private Mortgage Insurance)

Required when down payment is less than 20%; adds 0.5-1% of loan annually

Escrow Account

Account held by lender to pay property taxes and insurance; included in monthly payment

DTI (Debt-to-Income Ratio)

Monthly debt payments divided by gross income; lenders prefer 36% or less

PITI

Principal, Interest, Taxes, Insurance - the four components of a mortgage payment

Equity

Home value minus mortgage balance; your ownership stake in the property

Appreciation

Increase in home value over time; historically averages 3-4% annually

Key Calculations

Monthly Housing Budget (28% Rule)

Gross Monthly Income $\times 0.28$ = Maximum Housing Payment

Example: $\$5,000 \times 0.28 = \$1,400$ max for housing

Debt-to-Income Ratio

$(\text{Total Monthly Debt Payments} / \text{Gross Monthly Income}) \times 100 = \text{DTI}\%$

Example: $(\$1,800 / \$5,000) \times 100 = 36\%$ DTI

Home Equity

Current Home Value - Remaining Mortgage Balance = Equity

Example: $\$350,000 - \$280,000 = \$70,000$ equity

Price-to-Rent Ratio

Home Price / Annual Rent = Ratio

Under 15 = buying favored | Over 20 = renting favored | 15-20 = depends on situation

Housing Affordability Rules

28%

Maximum of gross income for housing costs (mortgage/rent, taxes, insurance)

36%

Maximum of gross income for total debt (housing + car + student loans + credit cards)

20%

Ideal down payment to avoid PMI and get best interest rates

Decision Factors Checklist

Consider Renting If:

- ☐ Planning to move within 3-5 years
- ☐ Job situation is uncertain
- ☐ Limited savings for down payment
- ☐ Credit score needs improvement
- ☐ Don't want maintenance responsibilities
- ☐ Local market favors renters (high price-to-rent ratio)
- ☐ Prefer flexibility and mobility

Consider Buying If:

- ☐ Planning to stay 5+ years
- ☐ Stable income and employment
- ☐ Have 10-20% down payment saved
- ☐ Good credit score (680+)
- ☐ Ready for homeowner responsibilities
- ☐ Local market favors buyers (low price-to-rent ratio)
- ☐ Want to build long-term wealth

Key Takeaway

The rent vs. buy decision depends on your personal circumstances, local market conditions, and financial goals. Renting offers flexibility and lower upfront costs but builds no equity. Buying builds wealth over time through equity and appreciation but requires significant upfront investment and ongoing responsibilities. Calculate your total costs for both options over your expected time horizon to make the best decision for your situation. Remember: the "right" choice varies by individual - there's no one-size-fits-all answer.