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Renting vs Buying a Home and Accumulating Wealth

JULY 1, 2015

Does it make more financial sense to buy or to rent? Is the American dream of home ownership still alive? That depends. Let's explore renting vs buying a home and the effects on family wealth.

Recently, the [BH&J Buy vs. Rent Index \(http://business.fau.edu/departments/finance/bhj-buy-vs-rent-index/index.aspx#.VZKhChNVhBc\)](http://business.fau.edu/departments/finance/bhj-buy-vs-rent-index/index.aspx#.VZKhChNVhBc) seems to conclude that renting is surpassing buying as the better choice. Is it really? Should we let others draw our own conclusions for us? A closer inspection breaks it down. The summary says,

The index conducts a “horse race” comparison between an individual that is buying a home and an individual that rents a similar quality home and reinvests all monies otherwise invested in homeownership.

Let's assume for a moment that this is true. Any funds that would have been spent on homeownership really **are** diligently invested by renters rather than spent. Is this a realistic expectation?

We should first consider the general economic advice of not spending more than 25-30% of one's income on rent. We should also recognize that recommendations are often more conservative than what the population is actually doing. When we put these ideas together, the quoted text above begins to look more like wishful thinking.

Please consider: [Housing's 30-Percent-of-Income Rule Is Nearly Useless](http://www.bloomberg.com/bw/articles/2014-07-17/housings-30-percent-of-income-rule-is-nearly-useless) (<http://www.bloomberg.com/bw/articles/2014-07-17/housings-30-percent-of-income-rule-is-nearly-useless>) from Bloomberg.

When we look at consumer savings rates, this "wishful thinking" hypothesis is all but confirmed.

United States Personal Savings Rate



source: tradingeconomics.com

It stands to reason that the savings potential of the "if-then" scenario posed by the BH&J Buy vs. Rent Index summary is simply unrealistic. If the average consumer is spending at least 30% of their income on housing, and saving less than 6%, this becomes an unfair comparison. Why?

Forced Savings and the Accumulation of Wealth

An article in the New York Times published November 29, 2014 makes the case for home-ownership against renting. It is a well thought-out article that, if you are weighing the issue of whether to rent or buy, you may want to read.

As the rate of homeownership has declined, from a peak of nearly 70 percent in 2004 to a 20-year low of 64.3 percent recently, the number of owner-occupied homes has barely budged, while the number occupied by renters has increased by nearly 25 percent.

Those trends have led to questions about the future of homeownership. Would more and longer rentals be a bad thing? Are the benefits of homeownership overrated? [More...](http://www.nytimes.com/2014/11/30/opinion/sunday/homeownership-and-wealth-creation.html) (<http://www.nytimes.com/2014/11/30/opinion/sunday/homeownership-and-wealth-creation.html>)

The article goes on to say,

Homeownership long has been central to Americans' ability to amass wealth; even with the substantial decline in wealth after the housing bust, the net worth of homeowners over time has significantly outpaced that of renters, who tend as a group to accumulate little if any wealth.

What Does This Mean for You?

If you are taking an honest look at whether it is a better idea to rent or to buy, it is a good idea to consider the facts. There are good reasons for either renting or buying. Whatever decision you make, we at Benchmark are happy to look at your personal situation to help you make the right choice.

by [I Am Benchmark](#)

[Buying a Home](#)

[BH&J BH&J Buy vs. Rent Index buying vs renting savings rate](#)

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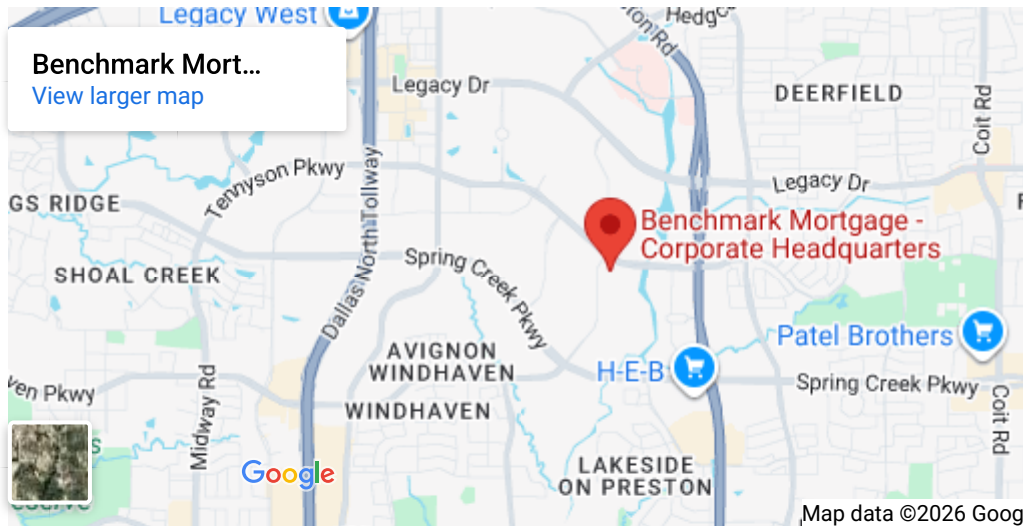
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