

FINANCIAL FITNESS

Rent or Buy

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Much has been said about the current state of housing in the United States. Inventory of homes for sale is low, interest rates remain relatively high, and potential sellers are hesitant to lose their very low mortgage rates. Home ownership has always been considered a part of the American Dream and a right of passage to adulthood. But is it the right choice for you in today's world? There are economic trade-offs in the buy versus rent decision and there are emotional and non-economic considerations as well.

We will start by looking at the numbers. After all, this is a personal finance column.

The biggest financial appeal to home ownership is building equity and the prospect of a gain when you eventually sell. There is merit to this thinking, but there are also other considerations to bring into the analysis. In the first three years of a 30-year mortgage at 6.25%, you will pay down less than 4% of the beginning principal. Your payments are overwhelmingly interest. Couple that with property taxes, and a high portion of the monthly cost of home ownership is comparable to rent in that it goes elsewhere and not into building equity. Building significant



equity through mortgage payments takes years, so if you do not plan to remain in a home for a number of years (perhaps 7 to 10), may be worth it considering the alternative.

There are other economic considerations when comparing owning to renting.

Homeowner's insurance is higher than renter's coverage and repair and maintenance costs for a home can average 1% to 2% of the value of a house plus occasional big ticket items such as an HVAC replacement, new roof, painting, etc. These along with ownership costs should lead to the question, "how much am I actually paying to live here – not to own it?" The potential for gains from ownership is also attractive, but a significant reason for this is the leverage typically employed when buying a house. With a 20% downpayment, a 10% gain in price at sale results in a 50% gain on invested capital, but of course that cuts both ways such that a 10% decline in value produces a 50% loss on your capital, excluding consideration of equity build-up. Not to be excluded from these considerations are selling costs. Besides the selling commission, you may need to make neglected upgrades, repairs or neutralizing décor.

The above is only meant to outline the potential financial trade-offs when looking at home ownership versus renting. There are many non-financial considerations to home ownership such as more space typically, perhaps a yard for children and pets, ability to make changes, and the feeling of stability or permanence. These are all valid considerations and are worthy of factoring into the financial pros and cons. In today's economy, people are switching jobs more frequently than past generations, which may require relocation, and owning a home may complicate the process. Renting provides optionality, while ownership provides stability. In the end it comes down to the lifestyle you are looking for, but knowing the economics is an important input.

Erik Ford is the owner of Ford Wealth Management LLC in Glen Ellyn, IL. He is a CFP® certificate holder, an Accredited Investment Fiduciary™, and a CIFA® professional. Erik Ford and Ford Wealth Management do not offer legal advice. Registered Representatives. Securities offered through Cambridge Investment Research, Inc., a broker-dealer, member FINRA/SIPC. Investment Advisor Representative Cambridge Investment Research Advisors, Inc., A Registered Investment Advisor. Cambridge and Ford Wealth Management are not affiliated.

REAL ESTATE RESOURCE

This is your neighborhood Real Estate Resource page. This information can be useful when trying to compare property values or for just keeping a pulse on the real estate market in our area. For questions regarding the properties listed, or about real estate in general, consult a real estate professional.

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Address	List Price	Sale Price	DOM	Beds	Baths	SqFt	Style
838 Woodland Dr	\$575,000	\$550,000	7	3	2	1,278	1 Story
21W756 McCarron Rd	\$565,000	\$585,000	5	3	3	2,250	Split Level w/ Sub
595 Raintree Dr	\$625,000	\$595,000	20	4	2.1	2,530	2 Stories
84 N Parkside Ave	\$625,000	\$625,000	5	4	1.1	1,836	2 Stories
153 N Park Blvd	\$685,000	\$685,000	4	4	2.1	2,108	2 Stories
211 Crest Rd	\$699,000	\$735,000	5	3	2	1,909	Split Level
797 Forest Ave	\$750,000	\$775,000	7	4	1.1	2,067	1 Story
337 Grandview Ave	\$800,000	\$809,000	11	3	2.1	2,112	2 Stories
577 Lee St	\$859,900	\$901,000	4	3	2	1,744	1.5 Story
2S365 Milton Ave	\$959,000	\$970,000	30	4	5.1	5,569	2 Stories
625 Midway Park	\$985,000	\$985,000	10	4	2	2,182	Split Level
721 Lenox Rd	\$1,050,000	\$1,000,000	66	4	2.1	3,164	3 Stories
789 Hill Ave	\$1,060,000	\$1,035,000	10	4	4	3,634	2 Stories
580 Hillside Ave	\$984,900	\$1,050,000	5	4	2	2,438	2 Stories
709 Pleasant Ave	\$929,000	\$1,075,000	5	4	2.1	2,249	2 Stories
606 Lakeview Ter	\$1,197,000	\$1,175,000	64	4	3.1	3,705	1 Story
843 Crescent Blvd	\$1,150,000	\$1,300,000	17	3	2.1	2,664	2 Stories
707 Revere Rd	\$1,250,000	\$1,310,690	6	4	3.1	3,500	2 Stories
855 Crescent Blvd	\$1,875,000	\$1,790,000	11	3	3.1	2,914	2 Stories
589 Lee St	\$1,779,000	\$1,800,000	5	4	3	2,786	1 Story

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