



Renting vs. Buying: The True Cost of Homeownership

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Whether you're newlyweds starting out, a middle-aged couple downsizing, or seniors contemplating retirement communities,



you will likely need to evaluate the economics of *renting vs. buying* at some point.

Owning a home does not somehow make it *free* to live in. Home ownership has clear, quantifiable, ongoing costs, just like renting. For different people in different times and places, one approach or the other can make more sense.

The problem lies in determining the cost of home *ownership*. With that, there are many variables all working over different time frames. There is no simple monthly cost for owning a property, though there might be homeowner's association dues on top of many other expenses. There is a "sticker price" for a home. But that number bears very little relation to the actual cost of living in a purchased home.

Transaction costs

Real estate website Zillow reports home buyers typically pay between 2% and 5% of the purchase price of the home in closing costs. That means for each \$100,000 in house cost for this hypothetical example, you are going to spend \$15,000 in transaction costs as a buyer then seller. Divide that by the 120 months in an assumed 10-year holding period and you get an ownership expense of about **\$125/month** due to transaction costs.

Insurance

The national average premium for homeowner's insurance is currently around \$850. Given a national median home price in the low \$200,000's, the annual cost for property insurance is approximately one half of one percent of the property value. That's about **\$42/month**.

Maintenance costs

Whether it's mundane repairs like replacing door locks, fixing toilet leaks, and touch-up painting, or big-ticket items like new roofs, furnaces, or driveways - it all comes out of your pocket. [U.S. News and World Report](#) estimates homeowner's spend from 1% to 4% of a home's value each year on maintenance and repairs. In our example, that amounts to **\$167/month**.

Property tax

Ultimately, property taxes are a function of your state and local government. Assuming you're living in a low-cost area, 1% of \$100,000 monthly means about an **\$83/month** expense for property tax.

Opportunity costs

Where would your money be invested if not in a mortgage, and what would it earn? Let's use an arbitrary 5% rate of return to compute the opportunity cost of owning a home. On \$100,000 of home value, a 5% foregone return equates to a cost of about **\$417/month**.

The bottom line for this hypothetical example is that home ownership actually costs about **\$834/month** per \$100,000. So, for example, if you're looking at living in a house valued at \$300,000, you could assume that would cost you about 3 x \$834 or about \$2500/month to own. If you can rent it for less than that - which indeed you can in some U.S. markets right now - then renting is actually the better value.

Cost of Home Ownership per \$100,000

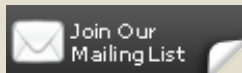
Item	Monthly Cost
transaction	\$125
property insurance	\$42
maintenance	\$167
property taxes	\$83
interest/opportunity cost	\$417
TOTAL	\$834

Source: www.caniretireyet.com

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