



RENTING VS. BUYING

THERE IS MORE TO THE DECISION TO RENT OR BUY THAN WHETHER OR NOT YOU CAN SIMPLY AFFORD THE PRICE OF THE NEW HOME.

There are pros and cons to both renting and buying. There is more to the decision to rent or buy than whether or not you can simply afford the price of the new home. The decision comes down to both quantitative and qualitative factors. Things to consider when making this decision include your current financial position, long term geographic location plans, and personal lifestyle preferences.

The first thing to assess and one of the most important factors is your current financial situation. The things to consider are your current savings for a down payment and your ability to carry the monthly mortgage payment. Most lenders will qualify you for a mortgage to purchase the home with less than a 20% down payment of the purchase price of the home. However, if you do not put at least 20% down you will likely be subjected to Private Mortgage Insurance or PMI. PMI protects the mortgage lender if the borrower stops making payments on the mortgage but it is a cost to you as a borrower. As a borrower you want to try to avoid PMI because it typically costs between 0.5% and 1% of the entire loan amount annually. On a \$350,000 loan that could be as much as \$3,500. Typically PMI will be cancelled after 2-5 years but in the interim it could cost you in an amount of five figures depending on the initial purchase price. This is why you really

want to shoot for a 20% initial down payment because it will save you money in the long run.

The next to consider is your monthly income stream. A diligent saver and thrifty individual might be able to save up 20% of a home's purchase price over the course of several years but their regular income stream still might not be sufficient to carry the mortgage over the course of time. Your monthly budget is a major factor in whether or not you should purchase a home. When thinking about budgeting you would like your monthly housing expenses, either renting or mortgage payment, somewhere between 25-35% of your overall income. If your total payment would exceed these levels you may find yourself in a precarious situation financially. When thinking about your overall housing payment you are not limited to just the mortgage payment that you are responsible for, the costs of insurance, property taxes and any maintenance or improvements should all be considered when making the calculation for your monthly budget.

Another thing to consider is the length of time you plan on staying and the geographic location of your potential home. The longer you plan on staying in your home the stronger the case can be made for purchasing. Ideally you want to purchase

a home in a location where property values are on the rise. The standard stay number to consider is 5 years. If you plan on staying in your home for 5 years or more it may make more sense to buy. However if you feel you are in a more transient stage currently and would only be in the home for a couple years renting might make more sense.

The last thing to consider is your overall current lifestyle. Owning a home usually requires much more effort in terms of maintenance and upkeep than renting. This can impact your free time, and your wallet. Also the commitment to home owning is more appropriate for someone that would like to be settled in one location over the long haul. If

you are still unsure of where you are going to be over the next few years, whether that it's in your career, personal relationships or simply geographic location, it would probably be best for you to continue renting even if you can afford to buy.

A home is not a liquid investment. It is a process to sell a home and get the equity out of the house you purchased. Things like closing costs when purchasing and selling, PMI, property taxes and any required maintenance are all things that could make a 1-3-year home purchase be more costly than simply continuing to rent. Being patient and taking your time will make the decision much more clear and help save you a lot of money down the line.

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HIGHTOWER
SARIAN STRATEGIC PARTNERS

565 E SWEDES FORD ROAD, SUITE 200
WAYNE, PA 19087
OFFICE: (610) 850-9050
HIGHTOWERADVISORS.COM/SARIAN