



Is renting a smart decision?

By Metro Creative Connection

Conventional wisdom suggests buying a home makes more financial sense than renting. In many cases, this is true. However, renting is sometimes a smarter approach than buying.

As with any financial decision, all of the options and circumstances need to be weighed before jumping in. Making a major purchase requires doing your homework. The following are some reasons why renting can be more beneficial than buying.

You are young. The National Association of Realtors says the typical first-time home buyer is 31-years-old. People who are younger than that and uncertain about their futures should not feel pressured into buying simply because it is presumed to be the "adult" thing to do. Renting and feeling your financial way, which can include seeing how a job pans out or where your budget lies after paying off debts, might make more financial sense than buying.

The price-to-rent ratio is too high. Buying may seem like a wise idea, but it could be causing you to spend more than necessary, particularly if you check the price-to-rent ratio and find homes in your area are not fairly priced. Figuring a P/R ratio includes finding two similar houses (or condos or apartments) where one is for sale and the other is for rent. Divide the sale price of the first place by the annual rent

for the second. The end result is the P/R ratio. So if a home sells for \$300,000, and there is a house around the corner renting for \$1,200 a month, divide \$300,000 by \$14,400 (the annual cost of renting). The ratio would be 20.8. A rent ratio above 20 means the cost of home ownership will exceed the cost of renting. The higher the P/R ratio, the more sense it makes to rent instead of buy.

Home prices continue to rise. Some people find themselves being priced out of certain neighborhoods or cities. RealtyTrac recently analyzed median wage and home-price growth between 2012 and 2014, ultimately finding that, while the typical worker's earnings increased a meager 0.3 percent during the study period, median house prices were up by 17 percent. Wages have not recovered from the Great Recession as quickly as home prices have, and some people may need to rent out of necessity.

A market shortage makes it harder to find an affordable home. The number of homes available for sale in many areas of the country has fallen below the number that realtors say is required for the market to be in balance. Therefore, even when a home becomes available, demand drives the price up to where it may not be affordable or fiscally smart to purchase. In such instances, renting may be the best option.

- You don't meet the buying crite-

ria. Don't buy a home based on market conditions or pressure from others. Instead, buy when you're financially ready. This means being out of debt; having between three and six months of expenses in an emergency fund; enough cash for a 10 to 20 percent down payment on a fixed mortgage; and when your mortgage payment will be no more

than 25 percent of your monthly take-home pay, according to financial expert Dave Ramsay.

Renting can be a smart move in many instances. Only when individuals are financially and emotionally ready to buy should they begin searching for their first homes.