

The American Dream typically includes homeownership, but owning a home is not always better than renting. Over the course of your life, you are likely to move through times when it makes more sense to rent and times when buying is a better choice. To know which is best for you, the key is understanding the pros and cons of each option.

Decide how long you will live in your home

One of the first factors to consider is how long you plan to be in your home. If your next move is less than five years away, you may be better off renting. During the first years of a home mortgage, a large percentage of your monthly payments goes toward interest instead of the principal. Consider the closing costs as well when calculating the overall cost of owning over the short term.

Think about how well you know the area

Good real estate investments often come down to location. If you're relocating to a new area, you may want to rent for at least a year before buying. This gives you time to explore the area and decide where you would really be happiest.

Research rent and mortgage estimates in your area

The financial benefits of renting versus owning can change dramatically from one location to another. Some cities have high rental rates and others are much more reasonable. Be sure to research your area to find information specific to your situation.

Consider the pros and cons of renting

There are both advantages and disadvantages to renting your home. Here are a few points to consider:

Less responsibility – As a renter, you can call your landlord when something breaks and let them take care of the repair.

Less freedom – Rental rules may keep you from owning pets, painting the walls, or making other changes to suit your personal taste.

More mobility – While you do have a lease, renting makes it much easier to pick up and move.

No equity – Paying your rent each month doesn't build equity for you.

Consider the pros and cons of buying

There are many desirable aspects of owning a home, but also some that make it less appealing. Consider the following:

Total responsibility – When something breaks, you are responsible for having it fixed. This includes interior and exterior care, plumbing, heating and cooling, electrical systems, appliances, and more.

Almost complete freedom – You can decorate and remodel your home however you like, as long as exterior changes comply with local zoning rules or those of your neighborhood homeowners association.

Less mobility – Having to sell your home or rent it out before you can move may limit your ability to relocate.

Potential equity – Paying your mortgage each month helps you gain home equity. However, real estate is an investment, and there is no guarantee that you will be able to sell your home for more than what you owe on your mortgage.

Understanding the pros and cons of renting versus buying will help you make a decision, but remember that most people aren't lifelong buyers or renters. There may be times when renting is the best option and others when you're ready to buy a home.

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