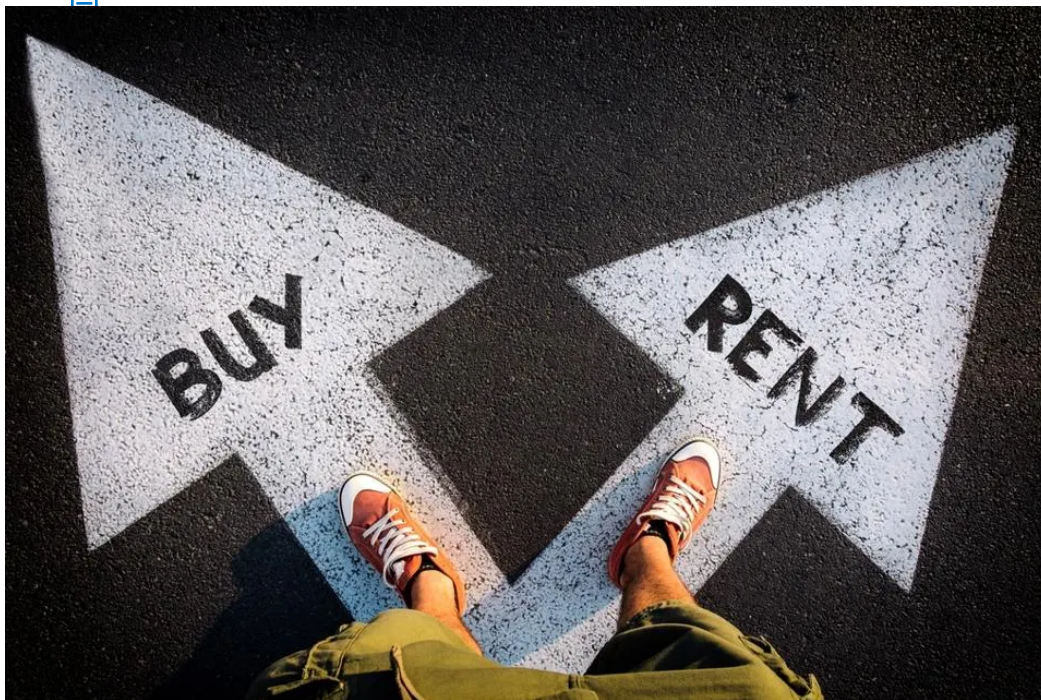


Why It's Okay To Rent Forever: Part 1

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I make tough financial concepts digestible to young professionals.



Many people are torn by the decision to purchase a home versus rent. GETTY

What do you think about when you picture the American Dream? For many, it includes marriage, kids, and buying a home with a white picket fence. But, not all of those elements are required for happiness or financial stability. For some, renting may make

more sense for their financial situation than homeownership. However, many may not see it this way. In this article, I will explore some of the reasons people think that home ownership is necessary and offer some ways to reframe negative thoughts toward renting.

Reasons People Think They Need To Own A Home

I had a conversation with a friend recently and she said, “I feel like I have to buy a house, but I really like the rent-controlled apartment I am renting.” I dug a little deeper to find that this friend believed that she was missing out on an investment opportunity and that everyone else was getting rich by investing in real estate.

There are a few reasons why people might think housing is a great investment:

1. You can see it, touch it, feel it, and live in it.
2. Housing can be an effective inflation hedge.
3. Your friends and neighbors might talk about real estate more than other types of investments.
4. The recent track record of residential real estate has been higher than average.

The last 10 years have been some of the highest for national housing prices, with an average annualized rate of return of 7.02% as of September 2023, according to the [S&P Shiller-Case Housing Index](#). Robert Shiller, one of the economists involved in the Shiller-Case Index, found that most periods of time in housing are not like the last 10 years. Housing has [kept pace with inflation](#) for over 50-year periods, including 1890-1946.

Some people will make an argument that they can gain leverage when buying a home, making it an even better investment. Someone might be in a favorable position if they assume house prices will increase and if they could get a 0% down, low interest rate loan. However, many couples I see rush to pay their houses off and put significant down payments on homes, often due to negative feelings about [carrying debt](#).

Is Renting “Throwing Away Money”?

I hear investors say that renting is “throwing away money” all the time.

Before the housing crisis, the average time that someone kept their home before selling and making a move was 6 years. In 2023, it is up to 10 years according to the National Association of Realtors. Lenders know this and want to make sure that they get paid. In the initial years of the mortgage, most of your payments go toward interest directly to the bank. In a 30-year fixed mortgage with a hypothetical 5% interest rate, you don't reach a tipping point where most of your money is going toward building equity in your home until 16 years and 3 months into the mortgage. It's even later with higher interest rates. So instead of paying a landlord, many are switching to paying a bank instead.

So, to the question of throwing away money, I like to ask what you consider throwing away money to be? Is it paying money and not getting any equity in return?

Of course, it's important to run the numbers to see the costs and benefits of buying versus renting a home because every area has different factors impacting it. I'll give Chicago as an example. According to RentCafe, average rent in Chicago is \$2,309 for a

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Of course, it's important to run the numbers to see the costs and benefits of buying versus renting a home because every area has different factors impacting it. I'll give Chicago as an example. According to [RentCafe](#), average rent in Chicago is \$2,309 for a 750 square foot home. Redfin RDFN -1.3% estimates that the median home price in Chicago is \$340,000. If you put 0% down, and got, say, a 7% interest mortgage, your monthly payments would be about \$3,275 per month including property taxes and insurance.* But that isn't the only expense.



As a homeowner, you would then have to pay for maintenance, repairs, and potentially homeowner's association dues on top of that. What would you get for this \$1,000+ monthly difference? A chance to participate in price appreciation or depreciation of your home. If you outlast everyone and stay in your home 20+ years and housing appreciation does better than the long-term averages, then you are certainly no longer throwing away money.

Conclusion

This was part one of an analysis of why it could be okay to rent forever. This article aimed to address some of the common arguments for home ownership and leave those on the fence with some things to consider. The next part in this series will go into benefits of renting and how investors who rent can achieve their financial goals.