

Renting vs. Buying a Home as a Student

Some students, especially graduate or professional students with savings, wonder whether purchasing a home makes good financial sense while in school.

For most people, buying a home is a good long-term investment. Homes have historically built value at a rate equal to or better than the general rate of inflation, offer tax advantages, and unlike stocks or bonds, a home is an investment that you can enjoy every day – a place and community all your own.

But for students, the answer is not so clear. Many live near a college or university during their student years and then move – that’s typically an ownership period of less than four years, less than most experts recommend for home ownership. And unlike the real estate market of years past, in which yearly double-digit gains and flexible mortgage terms were common; today’s real estate market is vastly different.

Whether buying makes sense for students depends on factors including the length of time they will own the property, the rate of property appreciation, whether there will be unforeseen ownership expenses, and the cost of renting a comparable home during same time period. Since no one can guarantee a certain rate of appreciation, buying a home, especially if for only four years, involves substantial financial risk.

Popular wisdom tells us that paying rent is “throwing money away,” since no equity is built while renting. But not owning can offer some significant benefits, especially for students:

- Renting offers a predictable housing cost, at least during the term of the rental agreement. Any maintenance or repair expenses are the responsibility of the landlord.
- Renting minimizes financial stress.
- Renting does not involve a long-term financial commitment.
- Renting involves no upfront costs other than a one or two-month deposit.



- Rents are often lower than mortgages for comparable homes, even when considering the tax benefits of owning.

On the other hand, some may come to school with no debt and substantial savings, which may allow them to make a significant down payment, yielding a mortgage payment comparable with renting or less. But given the costs associated with buying, maintaining, and selling a home, there could easily be a financial loss. For example, if the home should fail to appreciate, all real estate commissions and upkeep expenses would be lost, not to mention the risk of loss should the home depreciate.

If you aren't sure whether buying or renting makes sense for your financial situation, the New York Times offers a great calculator at:

<http://www.nytimes.com/interactive/business/buy-rent-calculator.html>

While there are intangible benefits of home ownership, from a financial perspective, owning tends to make sense only with a longer time horizon.