

Mullooly Asset Show: Episode 54 – Buying vs. Renting

Tom Mullooly: In episode 54, we're going to talk about buying versus renting. Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode 54. I say this at the beginning of a lot of these videos, but where do we get these questions? You gave it to us. When you have a question, you're probably not the only one who's thinking the same thing. Get in touch with us. You may see it on a future video. So these questions that we've been getting are great. We cover them on our videos. We also cover them on our podcasts, as well. Tim, what are we going to be talking about today?

Tim: I'm thinking about moving. Would you recommend buying a place, or renting?

Tom Mullooly: Big question, and it's something that there's really no right answer for. Let's just weigh the pros and cons. I have pros and cons for each, buying versus renting. On the rent side, I think you really need to consider renting as a short-term situation. It's really not a long-term fix for what you may be looking for. Let's face it, you're writing that rent check every month, and nothing's happening. It's not like you're paying down a mortgage or you're building up equity. It's something that I think really makes a lot of sense. Now, there are some pros to this in the sense that you don't have maintenance. When something breaks, you call your landlord, and you have them fix it. You don't have to worry about insuring the property. Sure, you want to look at renter's insurance, because, you know, someone breaks into your house. You want to insure the stuff, your stuff, but you don't have to worry about insuring the property. Maintenance and insurance, those are big things that really come into play when you're considering renting.

Depending on the finances involved, it may give you an opportunity to save money for a home. There's a lot of folks, they'll work in the city and they'll get a job up there, and they wind up rooming with someone they know to help save money on the rent, or two people or three people that they know. It gives them a chance to live and work close by, but also, sock some money away for saving a home. If you are renting a home, it's going to be really hard to save money for a home. Just understand it's really hard to do. It's like making two mortgage payments or two rental payments each month when you're trying to sock money away. Really, when it comes down to renting, if you're looking at something that's going to be three, four, five years in the future, renting may not really be for you. It's more of a short-term fix.

Let's talk about buying a place. It's funny. With interest rates where they are right now ... I don't want to sound like I'm a real estate agent or anything, I'm not, but with interest rates where they are, it's a good time to be looking. Also, we're still feeling the effects of the real estate collapse in 2007 and '08, and there's still some decent-priced bargains out there if you really commit to looking around. Some of the benefits of owning your own home, well, it's not necessarily a benefit, but you have a mortgage payment instead of a rent check every month. What's in that mortgage payment? Part of your check that you write every month is part principle, part interest. It's also part of your property taxes and some insurance, as well.

Now, one of the things ... Tim, we should probably make a video about amortization, since a lot of people don't understand it. Your mortgage is amortized in most cases. At the beginning of your mortgage, you're paying, say, \$1,500 a month, and only a very small part of it is principle payoff. Most of your payment is interest. Then, as time goes by, the principle part of your check gets bigger and bigger and bigger. Then, when you get near the end of your mortgage, you're going to find that your payment is almost all principle, very little interest. That's the concept behind an amortized loan, not a loan with simple interest. So you're actually buying your way into full ownership of the house. That's really great, and I'll tell you, I remember when my parents burned their mortgage. They had a mortgage burning party when they finished paying it off. That's something you don't hear about anymore.

You need to know that you're going to need to ... Before you buy a place, obviously, you've got to save a down payment. You also have to save for closing costs. You also have to have money available to pay for your pro-rated taxes and the insurance, as well. Another thing that you may want to consider when you're buying a house or buying a condo or a home is to think about getting some additional life insurance. What happens to you? Mortgage still stays. That's got to get paid. You may want to think about or reexamine how much life insurance you're carrying when you become a homeowner. That's a very big deal. There's also things like PMI. Kind of a bad term these days, private mortgage insurance. If you have less than 20%, you've got to pay mortgage insurance pretty much to ensure that you're ... It's an extra premium that you've got to pay to make sure that your mortgage gets paid on time, but there's a lot of benefits.

I think for me, personally, every Saturday, I remind myself, as a homeowner, I get to do all the maintenance on the house, but I love doing that. I drive a desk five days a week, so one day a week outside in the fresh air, it's good for me. It'd be good for you, too. There's a lot of benefits to owning a home, a lot to renting a home. Some of the conversations that we've had we people are, "I'm probably going to have to rent forever." Then, when we start going through it, I'm like, "You know, if you're a first-time homebuyer ..." We had this conversation a year ago right here in this office. If you're a first-time homebuyer, you may not need what you think 10, 20% in a down payment for a mortgage. You may be closer than you think. There are programs for first-time homebuyers where you can put as little as 3.5% down and get a house. If you're buying a \$300,000 house, you're going to need about \$10,000 for a down payment, and you're going to need closing costs and things like that.

It's not that far off. We've also had situations where we've talked to people who were thinking about renting with friends, and then, when two people put their heads together and realized, hey, we've got enough saved up. They could buy their own place. They wind up buying it instead of just paying rent. My mother-in-law used to tell me that paying rent is like flushing the toilet with your paycheck, because you're just flushing money down the toilet. That was her opinion. She also sold real estate, so she wanted everybody to buy. You've got to do what's right for you. There is no right answer when it comes to buying versus renting, but you should know that there are pros and cons to both sides. Thanks for watching episode 54, and please join us as we roll into episode double nickels. See you next time.