Individuals looking for homes should compare the costs of renting and buying. While the math is easy to calculate, there are other things to consider.

RENTAL CONSIDERATIONS

- COMMITMENT - Renters are tied into a lease term, which may be inconvenient.
- UNKNOWN FUTURE—Renters often fear that their lease may not be renewed or that they will be offered a renewal at a substantially higher rate, forcing them to move. On the other hand, in some cases, the lease renewal rate is subject to government regulations, which restrict increases.
- PROPERTY ENHANCEMENTS _ Renters often delay making property enhancements because they believe they will only be there briefly. They may feel the property belongs to someone else, so why invest; renters often stay far longer than they initially anticipated.
- FLEXIBILITY - Once their lease ends, renters can move. This can be particularly helpful when life circumstances change, requiring more or less space.
- NO LOST OPPORTUNITY COST - Renters don't have money tied up in a non-liquid asset.
- SURPRISE EXPENSES _ Renters are not subject to "surprise" expenses – such as a capital improvement, which must be done. In general, their cost of living is more straightforward to budget.

PURCHASE CONSIDERATIONS

- PSYCHOLOGICAL BENEFIT—Purchasing gives psychological satisfaction, as purchasers know they own the property where they live. Purchasers are more likely to make improvements or customize their property because they see it as an "investment" that will be returned when they sell.
- RETURN: Purchasers often believe the value of their real estate will rise above the return on other investments. This is not always the case.
- INTEREST RATE VOLATILITY – Purchasers are highly dependent on mortgage interest rates. Over the past decade, mortgage rates have fluctuated from an unusually low of 2.5% to a more "normal" high of 7.5%. When interest rates are higher, the monthly cost to buy a home with a mortgage is higher.

- COST OF ENTRY—Purchasing involves one-time expenses to “get in” (mortgage application fees, appraisals, title insurance, mortgage taxes, legal fees, etc.), often considered part of the overall purchase cost.

- COST OF EXIT There are costs associated with " getting out”—thus, selling the property. These include realtor sales commissions, real estate transfer taxes, repairs to prepare the property for sale, legal fees, etc.

- LACK OF LIQUIDITY—Real Estate is not a liquid asset; it can take months and sometimes even years to sell. This can become a big issue if a person has to relocate for professional or family reasons. Purchasers rarely consider these costs at the time of purchase.

- DOWNPAYMENT REQUIREMENT - A purchaser must also have cash for the downpayment,

- CREDIT HISTORY – A purchaser will need a good credit history (above 725) to convince a bank to give them a mortgage

- DEBT TO INCOME RATIO – A purchaser will need a debt-to-income ratio of less than 50% to convince a bank to give them a mortgage.

    - When calculating “debt,” the bank will look at all required payments, including credit cards, student loans, car installment loans, and the projected mortgage payment.

    - When calculating “income,” the bank will consider all income proven through tax returns or other documentation. (Contrary to common sense, the bank is not as concerned with how much money you have in the bank; the emphasis is always on income.)

11.01 – Rent vs Purchase – factors to consider when evaluating real estate costs

When comparing the cost to rent or buy, these are some of the factors to consider

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	COSTS OF RENTING	COSTS OF OWNING
RENT	Monthly cost set by Landlord –*see note below on NET EFFECTIVE RENT*	Not applicable
MORTGAGE	Not applicable	Purchasers normally make a cash downpayment and finance the balance through a bank loan called a "Mortgage". The mortgage cost is based on the amount of the loan, interest rate, and number of years to pay back. To calculate the monthly mortgage payment use this calculator: https://www.bankrate.com/mortgages/mortgage-calculator/
PRIVATE MORTGAGE INSURANCE	Not applicable	If the purchaser makes a 20% or greater downpayment, they will qualify for a "traditional mortgage" and NOT have to purchase PMI. However, if the Purchaser puts down less than 20%, they will be required to purchase Private Mortgage Insurance (PMI) which will be an extra cost for the length of the loan.
OPPORTUNITY COST of Purchase Downpayment	Normally not calculated for a tenant because the tenant's rental security deposit, is held in an interest-bearing account, and it is assumed the interest is paid to the tenant at the end of the lease.	When a downpayment is made on a property, it is not earning interest by being invested elsewhere. Therefore, it is reasonable to add the "Lost Opportunity Cost" of the downpayment
REAL ESTATE TAXES	Not applicable *except in the case of a commercial lease, see notes below.*	Owners pay real estate taxes directly to the municipality in which the property is located. The real estate taxes cover the cost to run the school system and municipal services. A property's real estate taxes are based on the "assessed" value of the property. The assessed value is determined by the municipality and is NOT the market value, but a relative number whereby the town determines a value in relationship other properties in the same municipality.

		The assessed value is then multiplied by a factor to get the real estate taxes. The exception to the above is NYC COOPERATIVE APARTMENTS whereby the cooperative pays the taxes, and the cost is passed on to the shareholder through the Maintenance fee.
COOPERATIVE & HOMEOWNER ASSOCIATION monthly fees = Maintenance **or CONDOMINIUM monthly fees = Common Charges**	Not applicable	In a Cooperative there is a monthly fee to cover the maintenance of common areas which is called MAINTENANCE. In a condominium there is a monthly fee to cover the maintenance of common areas which is called COMMON CHARGE Properties with more services, i/e doorman, live in superintendent, pool, gym, etc. would have a higher monthly fee than a no frills building
INSURANCE	Renters insurance covers personal contents and often offers liability coverage in the event someone is injured in the property. Further reading: https://www.investopedia.com/insurance/renters-insurance/ https://www.nerdwallet.com/article/insurance/how-much-is-renters-insurance	Homeowners Insurance covers the cost to restore the property to its previous condition if an accident occurs. The premium is related to various factors, including the property's location, fire-rating materials used in the original construction, and the deductible selected by the property owner. Generally, property in an apartment building (cooperatives and condominium units) will be less expensive to insure than the same-value property in a single-family house. That is because the insurance companies assume that they will only be repairing the interior and that the cooperative or condominium insurance company will repair the exterior in case of a catastrophic loss (fire).
HEAT	If the property's heating system services multiple units, the Landlord	The property owner always pays for the utilities to run the heating system

	will pay for the heat and not invoice the tenant. However, if renting a single-family home or an apartment with a separate heating system, the tenant pays for heat.	
ELECTRICITY	The tenant almost always pays for electricity which is monitored by the local utility company. There are some rare exceptions in a multi-family building where individual meters were never installed; in that case the landlord will pay for electricity.	The homeowner always pays for electricity which is measured through a meter by the local utility company. Normally in Cooperative or Condominiums there is individual metering of electricity, so it is invoiced directly to the Owner. In some rare exceptions if the cooperative or condominium did not install individual meters, then the maintenance or common charge would cover the electricity.
WATER & SEWER	None – included in the rent	The homeowner almost always pays for water and sewer which is measured through a meter by the local municipality. In some cases, the cost is covered by the real estate taxes, but that is rare.
LANDSCAPING-GARDEN MAINTENANCE	If the property has a communal garden or lawn area, the landlord will pay to maintain. However, when renting a single-family home, the tenant usually pays to upkeep the garden and lawn – this is a negotiable item.	None - If it is a cooperative, condominium as it is covered through maintenance or common charges. If a single-family house the owner pays for landscaping and garden maintenance
SNOW REMOVAL	If the property has a communal driveway or walkway, the landlord will pay for snow removal. However, when renting a single-family home, the tenant usually pays for snow removal.	None - If it is a cooperative, condominium as it is covered through maintenance or common charges. If a single-family house the owner pays for snow removal.
POOL MAINTENANCE	If the property has a communal pool, the landlord will pay for pool maintenance.	If the cooperative or condominium has a communal pool, the cost to maintain would be part of the maintenance or common charges.

	However, when renting a single-family home, the tenant usually pays for pool maintenance.	However, when owning a single-family home, the owner pays for pool maintenance.
REPAIRS/REPLACEMENTS – Appliances, roof, etc.	Repairs, including appliance replacement, are paid for by the landlord. In NYC there is a regulation allowing landlords to pass on "capital improvements" as increased rent upon renewal, but they are not added on during a lease.	The owner pays for repairs and appliance in their property. In cooperatives or condominiums, when there are major capital repairs to common areas such as roof replacements, or facade repairs, there often is an assessment (extra charge) invoiced to all owners.
REAL ESTATE BROKER FEE -	Normally paid by the landlord. In NYC until May 2025 the broker fee is paid by the tenant. After May 2025, the broker fee is paid by the person hiring the broker. https://www.openigloo.com/blogs/broker-fees-in-nyc-how-does-it-work-and-who-pays	Not applicable until the property is sold. At the time of sale, it is the seller that pays the broker commission.

ADDITIONAL INFORMATION

What is NET EFFECTIVE RENT?
The Net Effective Rent is the average monthly amount a tenant pays throughout a lease, factoring in any incentives or concessions the landlord offers. It serves as a method to calculate the actual cost to a tenant, which can differ from the gross or total rent before any adjustments.

Example: A landlord rents a unit for $3,000 monthly with two months free rent on a 24-month lease. Over the lease term, the tenant will pay $72,000. ($3,000 multiplied by 24)

However, since the tenant has used the place for 26 months, the net effective rent is $2,769 monthly ($72,000 divided by 26)
https://streeteasy.com/blog/net-effective-rent-what-does-it-mean-nyc-actual-rent/

REAL ESTATE TAXES - COMMERCIAL RENTAL PROPERTIES—When renting a commercial property, the tenant pays the real estate taxes and the base rent.

If a commercial property is advertised as a "Triple Net Lease," the tenant is responsible for paying the base rent, real estate taxes, and operating expenses. The term "triple net" refers to the three categories of costs the tenant takes on: taxes, insurance, and maintenance.