

Is renting really throwing away money?

After owning (and selling) a home in Philadelphia, this weeks' guest is questioning whether she ever wants to own a home again. Her biggest dilemma: Will renting for the rest of her life help or hurt her financial wellness long-term? For advice, Stefanie turns to Shang of SaveMyCents.com.

Jenna: My dad always told me you're not wasting money renting because you have a home to live in. But then I think the American dream to be a homeowner has always been there and so I think it's a hangup in my own head.

Becca: I actually lost money selling my home. I spent so much money fixing it. I was never more broke than when I owned a home.

Stefanie O'Connell Rodriguez: This is Money Confidential, a podcast from *Real Simple* about our money stories, struggles, and secrets. And today, we're talking to a 35-year-old listener we're calling Cheryl, not her real name. Cheryl recently moved to LA with her wife and young son.

Cheryl: My family wasn't very wealthy, but everyone else around me was very wealthy. So it was always a little bit stressful in our house. I worked from when I was 15 years old. I loved having my own money. And I loved being able to go out and work for something that I wanted. But I don't think I grew up with the right fundamentals.

Or I should say, I grew up with a set of views that were like, success is owning a house, right? Success is going to the best college you can go to, not the college that you have the scholarships to—the best college. So I have a very skewed view of what does financial success mean.

Everyone thinks that success is owning. Every single one of my friends from college owns a house. Every one of my friends from high school that is married owns a house. No one can believe that we want to rent, that we prefer to rent. I did the whole bought the house thing. Hated it. Hated it. I didn't want to have to call plumbers if something went wrong. I didn't want to fix things. I've moved four times. This is my third city in five years.

Stefanie O'Connell Rodriguez: After leaving New York and before moving to LA, Cheryl and her wife moved to Philadelphia, where they first became homeowners.

Cheryl: I moved to Philly, and I bought a house immediately without renting there. My wife and I—like—we had so many regrets of doing that. We lived in a studio in Manhattan, and we bought a three-bedroom house, like, a little row house. All steps everywhere, right? So I bought this house full of steps. And I thought it would be fine and it was the worst. And then we had a son two years ago. And when they start moving, there's just danger everywhere. And I was like, this house isn't working for us anymore. But my wife and I had to sit down and be like, do we need to own this place? We were also like, is this the right city for us? We didn't rent. That was silly. We moved to LA in May, and we're in an Airbnb now, and we're going to rent short-term. But then we're talking now, can we do that for 30 years?

Stefanie O'Connell Rodriguez: Are you and your wife on the same page about all of this?

Cheryl: Totally. And it was actually her thought. I never thought about selling a house before your mortgage is up. That was not something that came into my brain. And my wife brought it up—“We feel trapped. So why don't we get out of the thing that we feel like is trapping us.”

Stefanie O'Connell Rodriguez: Now that Cheryl and her wife sold the home they felt was “trapping” them, they find themselves drawn to renting, and are trying to reconcile what they grew up hearing with the reality of their experience—is renting really throwing away money? Or is homeownership really not for everyone?

Cheryl: Is it actually more fiscally responsible to rent, and to not have to worry about your boiler breaking, and to not have to worry about the roof? And to have a big pile of savings, and go on vacations, and live your life, and do all that. Everyone in my life is like, you've got to own a house. You have to own a house. And I did it, and I hated it.

Stefanie O'Connell Rodriguez: I think a lot of this is really insightful that you are questioning this, and you and your wife are making it work for you. The instinct to want to build wealth is what drives a lot of the decision to buy a home. And that instinct is good. So now the question is, if you're going to rent long-term, how are you now going to build wealth? So do you feel you have a good idea around how to do that?

Cheryl: Yes and no. I do all the things that you're supposed to do, right? I have 10% in my 401(k). I have 2% in my employee stock purchase plan. But I would never be like, hmm, I got a big bonus this year, should I put more into stocks? Our savings account is growing, but it's just sitting. But is that enough? I just want to have this money accessible so that we can travel, and go on vacation, and enjoy nice things, and not necessarily be socking away for a house when we don't even know if that's what we want.

Stefanie O'Connell Rodriguez: Do you think you might want to buy a house in the future?

Cheryl: It's hard to say because we just moved to California. And I feel like we have such PTSD from owning the house in Philly. And it was a brand new house, but the roof was leaking. Just had such a not great experience with it. It did all the things it needed to do, right? It kept me, my wife, my son safe, my dog. We brought our son home from the hospital. There's so many wonderful memories there. But then also, the pipes burst in the winter, going out to the hose on the roof—and the guy that came to patch it wasn't good.

And there was just this never ending cycle of every weekend there's something to do to maintain this house, and it is a year old. And I'm scared to go into a situation where if the house that I bought that is a year old had all of those issues, if we buy a house that's from the 50s, which is the boom of construction in California, the 50s, 60s, 70s, what are we going to be getting ourselves into? And are we ready to do all of that? Because I don't know that I am.

I can see us renting a house in the future because we do have a son and it would be nice for him to have a backyard. The poor dog has never had his own backyard. It would be nice to be able to open the back door and be like, "Go on out and play." But I don't know if I want to be the person that's responsible for maintaining that.

I also realized I don't want a big house. People cannot wrap their head around the fact that we want a house that's like 1,000 square feet, if we ever get one, and I think the one path is kind of drilled into us from my grandma who owned her house for 75 years to my parents who own their house for 30 something years, and wouldn't even consider the option of renting.

Stefanie O'Connell Rodriguez: I think it's also kind of broadening out what success means. But then also what wealth means, and what does it mean to give yourself the security you need to do whatever it is you want, because that's ultimately the goal. It's not a house, it's not two and a half kids, right? It's whatever you want.

After the break we'll talk about what building wealth and success can look like without homeownership, and what those still questioning whether to buy or rent should consider before making a decision.

How did you decide you wanted to purchase a home?

Shang: It was two different decisions because when I was really, really young, I got into a condo in Boston and that's been sold off since then. And then much later in life I bought into a co-op building here in New York City. And I'll tell you the first time, I had absolutely no clue, no clue what I was doing and the second time it was an informed decision. That was also a lifestyle decision.

Stefanie O'Connell Rodriguez: That's Shang of SaveMyCents.com. She has owned homes in both New York City, where she currently resides, and in Boston. Both cities

are expensive to live in, and the majority of residents rent versus own their homes. What are some of the lifestyle markers that someone might be quote, unquote, ready to buy a home?

Shang: I thought I was ready the first time because my parents impressed upon me that renting was throwing my money away and that I should get into real estate as soon as I could. And so I did it really, really early in my twenties. Like they push for it, they told me what kind of house I should go look for. They had seen some of the listings and be like, that's ugly, don't buy it. So it was very much a Shang's mom and dad pushed her into buying this home and Shang never took back and asked was this a good decision. And it ended up not being the right decision.

I left Boston only after a few years. There was no need for me to even own, and it was too much house for me. I took a lot of lessons from that very first time. And the second time around, first of all, my husband and I rented for a couple years in our marriage and we were totally fine with it.

Yeah. It was a really small space and had its own issues, but we never felt the second time around that we were throwing money away over renting. We saw as an opportunity to live as low cost as possible. And then when the right time came, when it made sense for us to want to start a family, and have a safe space for our child—that's when we said, okay, we're going to buy a home in New York. It's going to be real expensive. We're not going to see it as an financial investment, but it made sense for our family.

Stefanie O'Connell Rodriguez: What are some of the maybe myths you would say has have popped up around the idea of renting and home ownership?

Shang: Yeah, I think because of the extremely high barrier to home ownership to begin with in the United States for most of Americans, you'll see that a home takes up a very large part of their net worth. And that's a reality, and that's why it's very common to then say, because a home takes up a large part of my net worth. It is an investment. However, if you pull back, you look at the investing portfolios of people in much higher net worth stratospheres, the bulk of their net worth does not sit in homes that they live in, but it can be in real estate that they rent out. And that's a key difference for me. I've come to learn that a home is an investment if I'm a landlord, but if it's a home that I live in, there are so many costs on top that basically you throw your money away. And that that is the hidden cost of home ownership that a lot of first-time home buyers are not aware of that I learned from my first time buying a home in Boston, and that's why I had a much more realistic mindset going into my home in New York.

Stefanie O'Connell Rodriguez: So let's talk about some of those costs for somebody who may not be a homeowner yet.

Shang: The very common tradeoff or a calculation that I see marketed primarily by real estate agents and mortgage brokers who want your money when it comes to buying a home, as they say, how much are you paying in rent? All right, well, if you take all of that in rent, this is how much you can afford in a mortgage.

And this is the home that you could afford using a couple of very basic assumptions. Wow. That is such an oversimplification of home ownership because first of all, your mortgage is front-loaded. What does that mean? Most people don't stay in a home that they own for the full 30 years of a 30-year fixed-rate mortgage.

That means that in the first couple of years that you're staying in a home, you're actually not building that much equity in the home itself. Most of your mortgage payment is going towards interest and a tiny, tiny, tiny amount goes to the home equity. So let's say you're paying a thousand dollars a month in rent and you pay a thousand dollars in a mortgage. You're not getting a thousand dollars in home equity right away. That's a huge part.

Number two, your mortgage payment is not your only housing expense. As a renter you actually got it really good. There are so many days as a homeowner when I'm like, I kind of wish I were renting. Any problem that you got, you call up your landlord and they basically have to come fix it at some point.

Now some landlords are worse than others. We won't get into that. As a homeowner, you're responsible for property taxes, home maintenance costs. If you're in a condo and HOA or in New York and then a co-op, you got all the costs that are associated with that. You got homeowners insurance, and then you never know what else is on top of that.

And many of these costs by the way, are not fixed. Your mortgage payment could be fixed. And that's what people peg their numbers too. But all the other costs go up usually in line or even above inflation.

Stefanie O'Connell Rodriguez: That's such a helpful breakdown and I think on top of that, part of this is, just emotional. I think so much around the narrative of home ownership has been, this is what will make me a success, and I wonder how we can make sure that when we are saying that to ourselves, we are saying that with the framework of, oh, this is what success looks like on my terms, rather than this is what I have been told success looks like.

Shang: Exactly. And the unfortunate thing is that there is so much money to be made in real estate that most of the media, most of the ads and things like that are made to make you believe that home ownership is a sign of success and I get it because it does take a significant amount of time to save up a down payment. It takes time to get qualified and they look at your income and all that. And a lot of it goes into making sure that you have the signs of what society defines as success, which means, you know, two years of dependable income and a good debt to income ratio.

That being said, though, a lot of true wealth is hidden, in that assets that generate money, assets that grow wealth for people could be hidden in stocks. It could be hidden in ownerships of companies you've never heard of. It could be, it can also be real estate properties, but the thing is, that doesn't have to be part of your lived life. It can be very abstract. You hold a stock, but you never get a piece of paper that says, congratulations, you own a piece of stock in this company.

Whereas if you have a home it's emotional, you can feel, you could touch the four walls and be like, this is my home.

Stefanie O'Connell Rodriguez: The ownership thing is definitely something that I hear a lot from people. And it's interesting because I don't own a home, but I own a lot of stock. And I always think about the amount of wealth I've been able to build through the stock market without a huge time or energy cost. Homeownership is very labor intensive.

Shang: Yep. And even as a landlord even if you do decide to outsource everything, everything the plumbing, the electricity, all the small yard cleanup—cost money, which means that you need to charge more rent to pay for those costs. Being a landlord is not for the faint of heart. If you can do it right, you can also make a lot of money.

I also think if you haven't taken the time to reflect on your values and what is it that you really want out of life, it's then really easy to let others define what that success needs to look like for us.

And one thing that I really value is actually flexibility. Part of that is a desire to maybe one day become a digital nomad, or at least not be tied to one place, home ownership, especially if you do the math and you decide to live in that home, you got to commit to a neighborhood to a city for a pretty long time. And that is actually quite risky.

If you take into consideration that your job also needs to be pretty secure. If you decide to have kids that you kind of liked the neighborhood as well for your future kids. And that's really, really tough to decide. Whereas if I said that's not going to be the definition of success for me, success for me is actually flexibility. Then home ownership doesn't make sense in the context of that kind of value system.

Stefanie O'Connell Rodriguez: So I guess I really want to take some of these phrases that we hear and just get your take. So renting is throwing away money.

Shang: It depends on the opportunity cost of the money that you would have spent on the house instead of investing. Going back to my example of you owning a home and you just take the rent and you put it towards the mortgage, and then we add all the extra costs on top, right, the maintenance, the property tax, the homeowners insurance, and all of that, that money, when you're a renter, you don't need to spend. And not only are you not throwing, quote unquote, throwing it away on property tax

you can invest that money instead. And two things are true today. The average nominal, market return in the stock market on an investment has averaged at about 10% year over year.

According to Zillow, the average annual growth in home prices has been 4% a year. Now, again, you can get really great returns in real estate if you know where to look, but that's the same for any investment. And if I'm talking to an average person, who's considering putting money into the stock market versus trying to build equity slowly into a home.

I just look at those two numbers and I say that doesn't match up. You're actually throwing away more money by buying that house.

Stefanie O'Connell Rodriguez: I don't know that people are really sitting down and going through the numbers with this longer term perspective to even consider something like opportunity cost.

Shang: Because no one is incentivized to help you with that. Your real estate agent is incentivized to make you find and close on a house as quickly as possible. Now, the mortgage broker wants you to close on a house as soon as possible. The sellers want you to buy as soon as possible. Where in this environment, do you see anyone who's positioned to give you that rational cool-headed objective advice? No one and no one's being paid to really make that decision for you.

So you have to pull yourself back from the emotion, and this is a very American concept. We love our freedom. We don't like to be owned by anybody. And sometimes renting can feel like you are answering to your landlord each month, right?

Each month you write that check. I'm paying somebody else. But instead, if you can twist that around and say, yes, I might be paying somebody else's mortgage, but the money that I'm not spending on this home, that I'm investing, it's coming to pay me back going forward. If we could try to like, just turn that around a little bit and run that math, I would say a lot more people might say, okay, I can take the emotions a little bit more out of home ownership.

Stefanie O'Connell Rodriguez: You talked about all these people who are really intimately involved in the home ownership process, traditionally having an incentive to make you buy that home, whether it's a good financial or emotional decision or not. What are the resources that we can turn to when we do take a step back to help us make that decision more clearly?

Shang: I love the website, zillow.com because they're just, just huge database of homes and you can really get lost in the bowels of zillow.com.

But what I like is that it's a really good way for me to browse and be aware of prices in my area and prices over time. When it comes to real estate, It's all about timing. And

it's also about looking at historical. So you got to look at, well, how quickly have homes sold in the past and how much have they actually appreciated in the area that I want to buy?

If it's a hot area then you might be right. But if you're kind of in like a dead zone, you got to make sure, you know that too.

Another thing that I love to do when I'm getting ready to purchase a home. And I did this when I was getting ready to purchase a home in New York is to speak to other people who've recently purchased in this area.

They can tell you all about the ins and outs, the quirks of specific things to look out for. For example, in New York, there is no home inspection as part of the purchasing process and people have no idea to that. That's like a quirk for New York City, whereas, perhaps in different parts of the country, I might look out for local zoning issues or maybe a tax shelter of some kind in a home might sit on. Water supply might be a really important one—septic tanks, for example. So learning from other people who've done this.

Then finally, since you are a buyer, you're probably going to use an agent. My recommendation here is to use an agent who's dealt with homes of a similar size as the ones that you're looking to purchase.

If you suddenly come on, you want to buy a home that's much bigger, that creates an interesting dynamic in which they're just going to look at you as dollar bills. And also if they tend to deal with much higher end and you're coming in at lower end, they might be pushing you up to higher end listings as well.

So I tend to try to hit for a spot where they tend to do similar-sized deals.

Stefanie O'Connell Rodriguez: With home prices reaching all time highs in 2021, many are opting to remain renters. Shang has actually considered renting indefinitely. But before making any decisions it's always a good idea to run the numbers.

Shang: The calculations that I've done at the very, very rudimentary level is, okay, how much does average rent cost in this area? If I were to rent and then for the kind of home that I want to buy, which could be different depending on what you want, but you look at the home, you add in the mortgage costs, then you figure out what the average property tax rate if it's public for wherever you want to live.

You add on an average insurance quote, you could get that from any insurance websites. And then you tack on 1% of the home value each year as a maintenance cost. Just add those things together and also add on HOAs, if you're going to buy into an HOA. And compare the two. And ask yourself, is this a trade-off that makes sense to me?

Which one of these makes more sense if your rent is lower than the total cost of ownership, take the difference and then plug it into an exponential calculator and say, okay, if I invest this in the market at a, call it 5%, return each year, what is that going to get me over the time that I would have bought the home. They could quickly see that there could be advantages to renting that you wouldn't have thought about before.

Stefanie O'Connell Rodriguez: Do you think some of the narrative around home ownership and how it's presented, I would say, especially by grandparents or parents, do you think some of that is a factor of the time period in which those people owned property?

Shang: It might be. First of all, we know that relative to your income in your twenties and thirties the minimum threshold you need to get into a home is much higher now than it used to be for our parents' generations, especially in really large cities.

The second is decades ago it was much more common for people to have pensions, to basically have retirement defined for them, invested for them on their behalf. Retirement these days, it's a lot more DIY. We all got to figure out how a 401k or IRA works. It's really confusing. And add homeownership on top.

It's a lot to keep in one's mind. So I'm not surprised that our parents and grandparents came from simpler times and wouldn't know how to navigate us through a more complex financial system today.

Stefanie O'Connell Rodriguez: I think that context is also valuable because I think sometimes when we are speaking to our parents, many of whom are better off than we are.

There is this assumption that, oh, well, I should follow their advice because they're better off than I am.

Shang: I have a fun way of dealing with unsolicited advice from my parents. I smile and nod and I say, thank you. I appreciate your opinion. I change the subject and then never take the advice. And I think that brings so much inner peace to me to know that you don't have to listen to what people say, but you can acknowledge that they have an opinion and let them have their say, because they are close to you and they brought you up. They saw you, you know, they diapered you. But you can still say, I respect your opinion, but I'm not going to action it.

Stefanie O'Connell Rodriguez: Are there certain benchmarks or parameters that people can use as a way to say, oh, this does make sense—Or doesn't make sense—in terms of homeownership?

Shang: A lot of times I would say, take a look at your ability to save and invest for your retirement before and after owning a home. And if you feel that you're still on track, that's great.

What I don't want to see is people go underwater. I've coached people where they have the mortgage payment and they still had a ton of student loan debt and car debt and consumer debt. And they could barely have enough money to feed themselves month over month, they keep racking up more debt. That might be a situation where you should pump the brakes and really, really think about whether home ownership makes sense or not.

And that's really hard because there's so much emphasis on, you're not an adult until you're independent and in your own home.

But I would also say adulting means being responsible with the money that you have and the assets that you have been given and being able to take care of your future self through your retirement plans, your retirement funds, and if owning a home actually prevents you from taking care of your future self, then that's not adulting. That's digging yourself a hole that's going to be very difficult to climb out of.

And I would love for all of us to celebrate more models of adulting that might not look like a traditional, I got my paycheck and I live in a home and I have two cars kind of deal.

Stefanie O'Connell Rodriguez: So is renting really throwing away money? The reality is, housing is part of our cost of living—whether we rent or we own. To figure out which option makes the most sense for you, it's important to take a step back and run the numbers—not just comparing the cost of monthly rent to monthly mortgage payments, but comparing rent to the full cost of homeownership—including property taxes, HOA fees, insurance and maintenance, in addition to the monthly mortgage.

And don't forget the costs of buying and selling a home—which are significant and a lot to manage, especially if you don't plan to stay in any one home for too long. Which is why the lifestyle considerations of renting vs owning can be just as important as the financial considerations.

For Cheryl, who has moved four times in the past five years, and isn't entirely sure where and how she wants to be living in the long-term—renting can actually make a lot of sense, and may even facilitate her current goals better than homeownership.

Because the true sign of success is not necessarily owning a home or living the life our parents did or friends are—it's about living in alignment with our own values and setting up our finances and our lives to facilitate that—whatever that looks like for us.

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