

## Renting vs. Buying

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## Pros and Cons of Renting vs. Purchasing

### Purchasing

- Wealth creation through home ownership
  - Tax deductibility (for potential income tax savings)
  - Amortization (forced savings)
  - Appreciation & “Rate of Return”
  - Capital gains (potentially tax free)
- Other benefits of owning a home
  - Personal control
  - Insurability (for physical hazards, financial liability and title defects)
  - Ability to leverage equity & improve equity
  - Potential for passive income
  - Estate planning and “stepped up cost basis”
- Usually need at least a 20% down payment, plus closing costs
- Some risks of owning – unanticipated expenses, liability and other legal considerations, illiquidity of the asset, potential depreciation

### Renting

- Need first month’s rent, security deposit and usually a broker’s fee, but are still far less than a down payment and closing costs
- Major benefit to renting is the roof that is provided over your head.; otherwise, every month the rent money disappears
- If you do not think you will stay in the same location for at least a few years, then it might be better to rent as it gives you more flexibility and ultimately costs less

## How do our financial products contribute to renting or purchasing on the market?

### HAP2 Components

- **Income Supplement:** Annual supplement, plus a one-time payment to purchase
- **Forgivable Loan:** Recommended by their dean; 10-year limit for forgiveness
- **Shared Appreciation/Second Mortgage:** Recommended by their dean; up to 30-year term

Not all tenured and tenure-track faculty receive HAP2, and the loan programs are significantly smaller than the income supplement program.

#### **Tenured Faculty – HAP2: Income Supplement**

\$40,000 taxable annual supplement for up to 10 years

\$40,000 if purchasing, one-time taxable payment for down payment and closing costs

#### **Tenure-track Faculty – HAP2: Income Supplement**

\$22,000 taxable annual supplement for up to 10 years

\$40,000 if purchasing, one-time taxable payment for down payment and closing costs

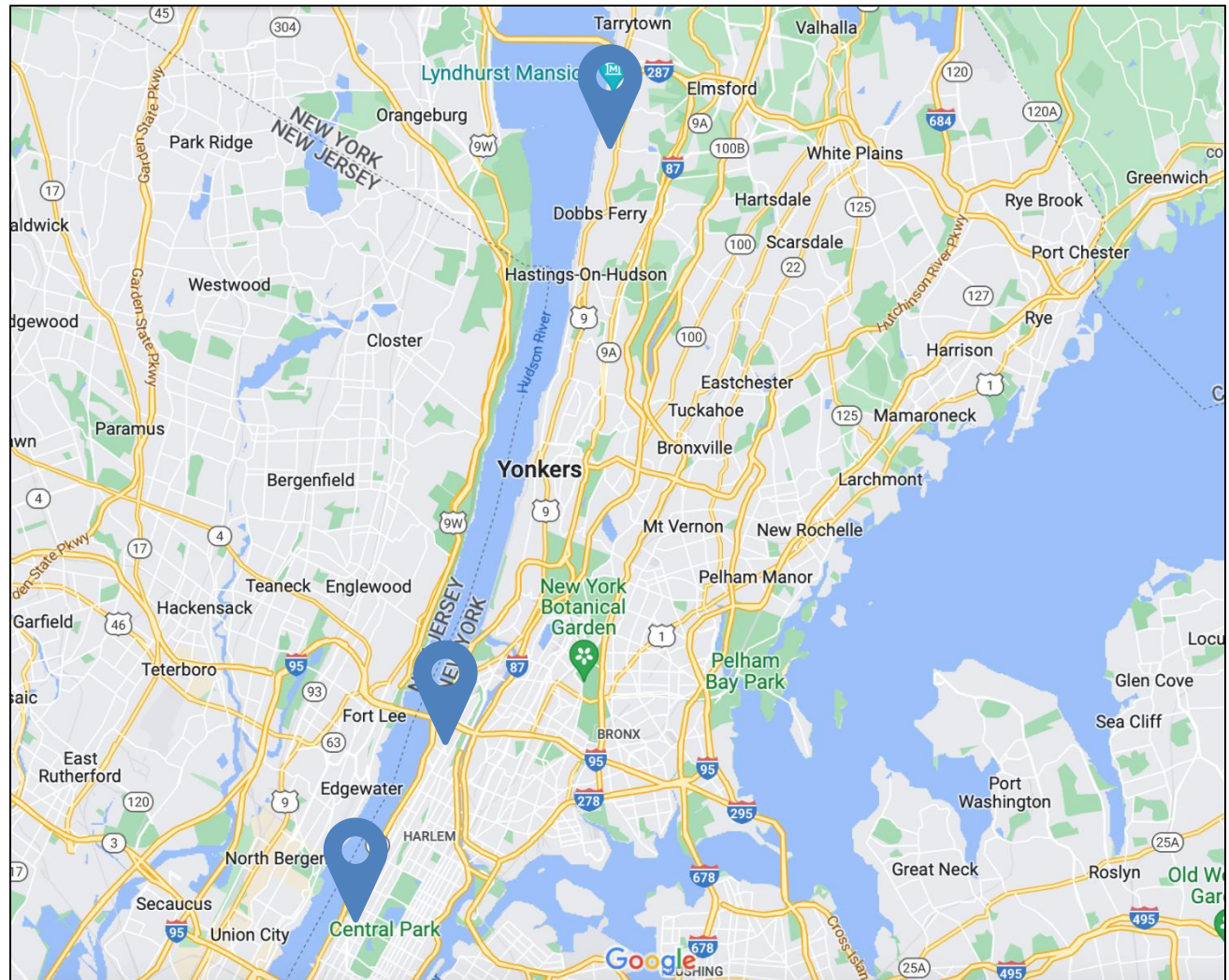
## What Does It Cost to Rent or Purchase a Property on the NYC Market?

Three locations  
convenient to  
Columbia University's  
campuses:

**Upper West Side**  
**Manhattan**

**Washington Heights**  
**Manhattan**

and **Irvington** in  
**Westchester County,**  
**New York**



## Upper West Side

Costs and Savings	Renting	Buying	Tenured Faculty
	Upper West Side	Upper West Side	Net Annual Supplement
	3 Bed, 2 Bath Apt	3 Bed, 2 Bath Condo Apt	and One-Time Payment
<b>COSTS</b>			
Sales Price		\$ 1,500,000	
Closing Costs-Purchasing		\$ 40,000	
Down Payment - 20%		\$ 300,000	\$ (25,000)
Annual Rent (\$7,000/month)	\$ 84,000		
Annual Renter's Insurance	\$ 800		
Mortgage Payment-Annual		\$ 76,800	\$ (25,000)
Common Charges (HOA) + RE Taxes-Annual		\$ 38,400	
Homeowner's Insurance-Annual		\$ 1,500	
<b>SAVINGS - Taxes</b>			
Mortgage Interest Deduction-Tax Savings		\$ (8,550)	
Real Estate Tax Deduction		\$ -	
(\$10,000 maximum for state, local and real estate taxes)			
<b>TOTAL Annual Cost</b>	\$ 84,800	\$ 108,200	\$ (25,000)
<b>TOTAL After 5 years</b>			
Rent + Insurance Paid	\$ 450,200		
PITI + HOA Fees (if applicable) Paid		\$ 551,600	\$ (125,000)
Property Value		\$ 1,592,000	
Equity in property*		\$ 510,500	\$ (25,000)

### Assumptions

Rent increase of 3%/year.

Maintenance, common charges (HOA fees), real estate taxes, insurance and property value increase of 2%/year.

Mortgage payments are calculated by subtracting down payment from sales price, and at 5% interest rate.

Interest up to a mortgage of \$750,000 is tax deductible.

Tax liability each year calculated at 25% of gross income.

All amounts are estimations.

Loss of interest for funds used as down payment and closing costs have not been calculated.

Consultation with a tax or financial advisor is strongly advised.

\* Includes the increase in value  
+ amount of principal paid to date  
+ original down payment.

# Washington Heights

Costs and Savings	Renting	Buying	Tenured Faculty
	Washington Heights 3 Bed, 2 Bath Apt	Washington Heights 3 Bed, 2 Bath Co-op Apt	Net Annual Supplement and One-Time Payment
<b>COSTS</b>			
Sales Price		\$ 900,000	
Closing Costs-Purchasing		\$ 7,500	
Down Payment - 20%		\$ 180,000	\$ (25,000)
Annual Rent (\$4,000/month)	\$ 48,000		
Annual Renter's Insurance	\$ 800		
Mortgage Payment-Annual		\$ 46,400	\$ (25,000)
Maintenance (HOA Fees + RE Taxes)-Annual		\$ 27,600	
Homeowner's Insurance-Annual		\$ 1,500	
<b>SAVINGS - Taxes</b>			
Mortgage Interest Deduction-Tax Savings		\$ (8,200)	
Real Estate Tax Deduction		\$ -	
(\$10,000 maximum for state, local and real estate taxes)			
<b>TOTAL Annual Cost</b>	\$ 48,800	\$ 67,300	\$ (25,000)
<b>TOTAL After 5 years</b>			
Rent + Insurance Paid	\$ 259,100		
PITI + HOA Fees (if applicable) Paid		\$ 343,400	\$ (125,000)
Property Value		\$ 974,200	
Equity in property*		\$ 325,200	\$ (25,000)

## Assumptions

Rent increase of 3%/year.
Maintenance, common charges (HOA fees), real estate taxes, insurance and property value increase of 2%/year.
Mortgage payments are calculated by subtracting down payment from sales price, and at 5% interest rate. Interest up to a mortgage of \$750,000 is tax deductible.
Tax liability each year calculated at 25% of gross income.
All amounts are estimations.
Loss of interest for funds used as down payment and closing costs have not been calculated.
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* Includes the increase in value + amount of principal paid to date + original down payment.

# Irvington

Costs and Savings	Renting	Buying	Tenured Faculty
	Irvington 3 Bed, 2 Bath House	Irvington 3 Bed, 2 Bath House	Net Annual Supplement and One-Time Payment
<b>COSTS</b>			
Sales Price		\$ 1,100,000	
Closing Costs-Purchasing		\$ 33,000	
Down Payment - 20%		\$ 220,000	\$ (25,000)
Annual Rent (\$6,000/month)	\$ 72,000		
Annual Renter's Insurance	\$ 2,000		
Mortgage Payment-Annual		\$ 66,600	\$ (25,000)
Real Estate Taxes-Annual		\$ 21,600	
Homeowner's Insurance-Annual		\$ 4,600	
<b>SAVINGS - Taxes</b>			
Mortgage Interest Deduction-Tax Savings		\$ (8,550)	
Real Estate Tax Deduction ((\$10,000 maximum for state, local and real estate taxes))		\$ -	
<b>TOTAL Annual Cost</b>	\$ 74,000	\$ 84,250	\$ (25,000)
<b>TOTAL After 5 years</b>			
Rent + Insurance Paid	\$ 322,874		
PITI + HOA Fees (if applicable) Paid		\$ 429,300	\$ (125,000)
Property Value		\$ 1,190,000	
Equity in property*		\$ 396,900	\$ (25,000)

Assumptions
Rent <u>increase of 3%/year.</u>
Maintenance, common charges (HOA fees), real estate taxes, insurance and property value <u>increase of 2%/year.</u>
Mortgage payments are calculated by subtracting down payment from sales price, and at 5% interest rate.
Interest up to a mortgage of \$750,000 is tax deductible.
Tax liability each year calculated at 25% of gross income.
All amounts are estimations.
Loss of interest for funds used as down payment and closing costs have not been calculated.
Consultation with a tax or financial advisor is strongly advised.
* Includes the increase in value + amount of principal paid to date + original down payment.