

Renting a Home

by Sophia



WHAT'S COVERED

In this lesson, you will learn the basics of renting a home or apartment. Specifically, this lesson will cover:

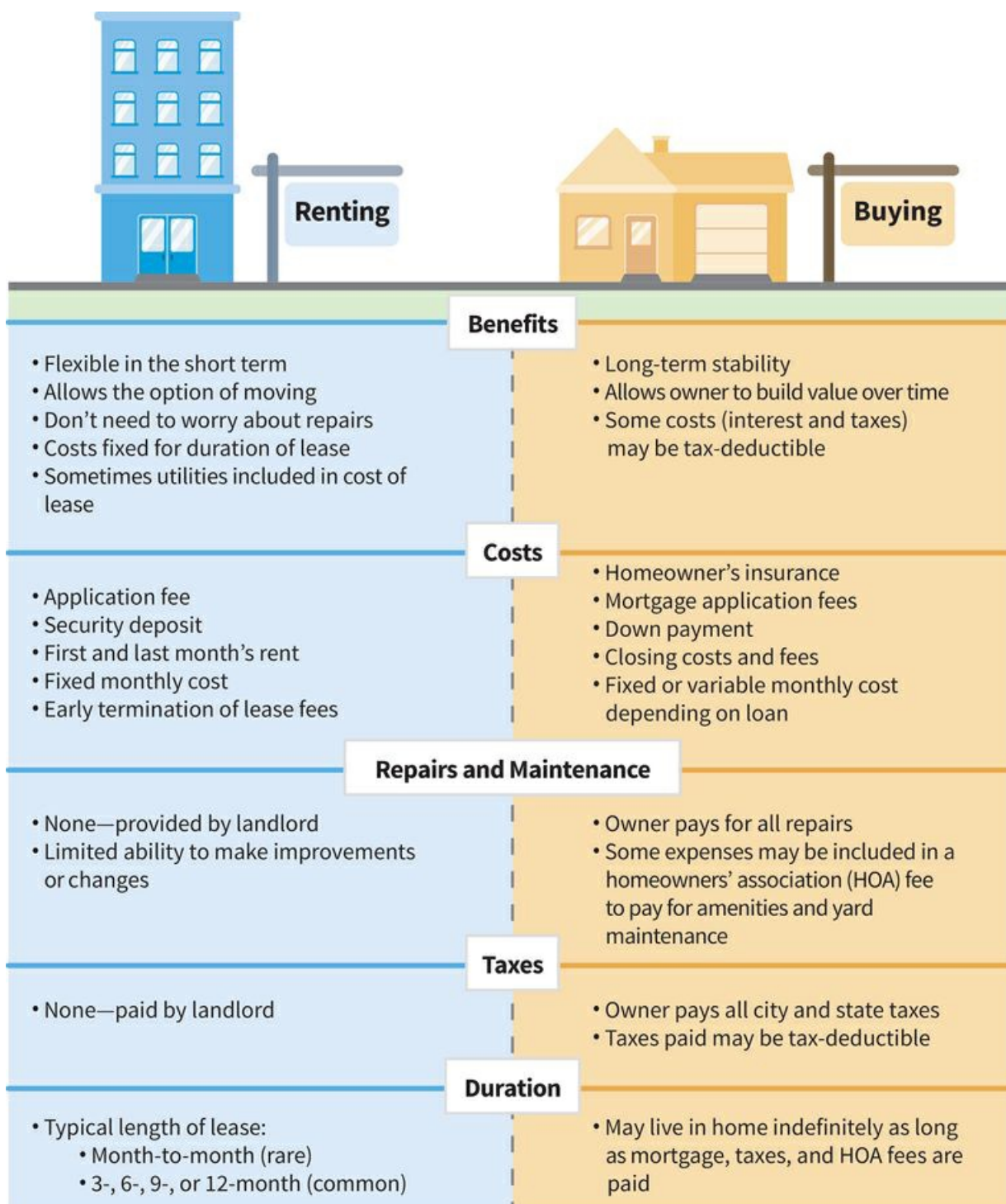


WATCH

Are you interested in a video preview of this lesson? Click play to learn about the basics of renting. When you're through, move on to section 1.

1. Renting Versus Buying

The table below provides a snapshot of how renting and buying differ. As shown, renting and buying offer unique benefits and drawbacks. Although you may ultimately want to buy something at some point, you'll most likely start off in your financial journey by looking for a place to rent.



Source: Fannie Mae, 2016.

2. Finding a Rental

Because most households spend the largest percentage of their monthly budget on housing – somewhere between 30% and 50% of total monthly income – it's essential that you understand the basic terms, procedures, and rules associated with renting a place to live.



If you're already renting, this is a good opportunity to review your current lease and living situation. When you start thinking about renting a place to live, apartments probably come to mind first. However, as a renter, you have many alternatives. The following list provides an overview of some of the most popular types

of rentals:

Apartment

- Multiple housing units in one building
- More community amenities

Manufactured Home

- Usually found in manufactured home communities
- Some neighborhood amenities

Single-Family Residence

- Found in neighborhoods
- Limited amenities

Duplex or Multi-Family Home

- Found in mixed residential neighborhoods
- Neighbors live on other side of wall
- Limited amenities

2a. Determining Location

Once you identify your preferred type of housing unit, it's time to focus on where you want to live. There's an old saying that sums up the housing market: location, location, location. This is just a simple way of saying that where you're looking to rent will often determine the price you'll pay. Factors such as proximity to good schools, safety, things to do, and other amenities drive prices up. In other words, the neighborhood you choose will help shape how much you pay.

One way to start the search process is shown in the illustration below.



If you ever need to move before your lease is up, it helps to live in a high-demand neighborhood because it will be easier for the landlord to find a new tenant quickly.

2b. Determining a Budget

When you enter the rental market, you are competing against what others are willing to pay and what the landlord (the person or company that owns the property you hope to rent) is demanding. Landlords, of course, want to maximize their profit. According to the [U.S. Department of Housing and Urban Development \(HUD\)](#), landlords may encourage you to spend up to 50% of your gross monthly income on rent. In some large cities you may, in fact, need to do this. But generally, HUD suggests that you spend no more than 30% of your pretax income on rent. For example, if you make \$3,000 per month before taxes, you should pay no more than \$900 of your income on rent ($\$3,000 \times 30\% = \900). In many instances, you can spend less than 30% of income on rent and have sufficient housing, leaving more money to spend on other items.

Once you determine your budget, you may discover that you simply can't find a place to live that offers the features you need and want at the price you can pay. In these situations, you have a few choices:

- You can sacrifice location and amenities for lower rent.
- You can look for a roommate to help make things more affordable.
- You can ask someone to be **guarantor** or co-signer for the rent payment. A guarantor is someone, like a parent or relative, who agrees to pay your rent in case you fail to make rental payments. If your credit score is low, you don't have a credit report, or you've never rented before, it's likely that your landlord will require a guarantor. (This is just one more reason to establish an outstanding credit score at an early age.)

Obviously, these solutions have drawbacks. Roommates, for example, are not always reliable. You may find yourself stuck with rent and damage that you must pay for if your roommate walks away. Having someone co-sign for your rent can sometimes cause hurt feelings and family arguments, especially if the co-signer needs to step in at some point to make rental payments for you.



TERM TO KNOW

Guarantor

Someone, like a parent or relative, who agrees to pay your rent in case you fail to make rental payments.

2c. Assessing the Rental Property

Once you've located a place to live, there are a few activities you need to complete.

- Carefully look at the property to make sure that it is well maintained. You do not need an engineering degree to do this. Are the carpets and walls clean? Do all the included appliances work? Is the outside painted? If something needs to be fixed, ask the landlord to take action before you sign any rental agreement.
- Be sure to drive around the property at night. Is it well lit and quiet? Is there adequate parking?
- Consider asking others who live in the neighborhood how they like living there.



HINT

Online reviews might be available for some rental properties; don't forget to check them out! As shown in the following illustration, if everything looks okay, it's time to read and sign a lease.



3. The Rental Lease

A **lease** is a legal document that outlines the terms of the rental agreement. A lease is intended to protect both the landlord and renter (you) by clarifying what is required of both parties. The following are the basics of what to look for in a lease.



DID YOU KNOW

You can negotiate the price and terms of a lease. Some points of the lease may be non-negotiable, but you won't know unless you ask.



TERM TO KNOW

Lease

A legal document that outlines the terms of the rental agreement.

3a. Rental Costs

As with everything in life, renting comes with costs and fees. Fortunately, when you rent and sign a lease, you'll know upfront what most of your monthly costs are going to be in the future. Once you start comparing places, be sure to use the following questions to guide the decision-making process.

- How much is the monthly rent? What is included (e.g., cable, phone, utilities)? When is the rent due? Who is the rent paid to and where? When does the lease terminate?
- What fees are required when you sign the lease?
- Will there be an **application deposit**, which is used in case your application is accepted but you decide not to move in? If you're rejected by the landlord, will you receive this deposit back?
- How much is the **security deposit**, which is money paid in advance to cover the cost of excess damage you might cause while living in the house or apartment? What is necessary to get 100% of your security deposit back at the end of the lease?
- Are pets allowed? If so, is there a required **pet deposit** to help offset damages caused by animals living

with you in the property?

- If you move out before the lease termination, will the landlord require a **reletting fee** to cover the cost of renting the apartment again? Will you be required to pay all remaining rent until the apartment is leased by someone else (unless you are in the military)?



DID YOU KNOW

The average pet deposit is \$400. Cats tend to be more acceptable to landlords. Landlords typically limit the size of dogs to 25 pounds or less.



TERMS TO KNOW

Application Deposit

Used in case your application is accepted but you decide not to move in to your rented dwelling. If you are rejected by the landlord, you will receive this deposit back.

Security Deposit

Money paid in advance to cover the cost of excess damage you might cause while living in the house or apartment.

Pet Deposit

A separate fee imposed by a rental agreement that is intended to offset damages caused by animals living in the rental property.

Reletting Fee

A fee required by the landlord to cover the cost of renting the apartment again before the lease termination.

3b. Renter's Insurance

You might think that once your lease is signed, you are all set. Well, almost. You have one more purchase to make: **renter's insurance**. Renter's insurance, although an optional budget expense, pays for your lost, damaged, or stolen property even if the loss doesn't occur in the rental. Landlords are not responsible for your property, so you really do need this coverage, which is only about \$125 per year. You can get coverage wherever you have your automobile insurance.



HINT

You may be covered under your parent's homeowner's policy, so double-check with them.



TERM TO KNOW

Renter's Insurance (sometimes called Tenant's Insurance)

Similar to a homeowners policy except that it is designed to provide you with property replacement and liability coverage rather than insurance to replace your residence.



SUMMARY

The decision to rent or buy a home is not always obvious. In this lesson, you looked at the pros and cons of **renting versus buying**. There are several steps to **finding a comfortable rental**. **Determining location** comes first. You must decide what type of housing you like and the kind of neighborhood you want to reside in. **Determining a budget** comes next. HUD suggests that you spend no more than

30% of your pre-tax income on rent. Finally, **assessing the rental property** is your last task. Talk to other people who live there to determine if the rental unit is safe and well-maintained.

The **rental lease** is your financial obligation and contract with the landlord. Review all **rental costs** carefully and don't neglect the fine print in your contract. Landlords are not responsible for your property, so be sure to take out **renter's insurance** in case your things are lost, damaged, or stolen. Obtaining insurance is a smart way to plan for the unexpected.

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