SAM'S ECONOMICS

A SAM'S ECONOMICS COMPANION GUIDE

Rent vs. Buy: Find Your Real Break-Even Point

A complete, step-by-step framework for calculating exactly when buying overtakes renting in your market — no generic five-year rule required.

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This guide walks through the full five-step break-even framework, a worked example, a blank worksheet for your own numbers, and the most common mistakes that throw the math off.

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BEFORE YOU START

Have three numbers handy: the price of a home you'd realistically buy, the annual rent of a comparable place, and roughly how long you expect to stay. You'll plug these into the framework as you go — or use the companion Rent vs. Buy Calculator to do it instantly.

SECTION 01

Why the Common Advice Is Half True

Before you can calculate your real number, you have to clear out two pieces of conventional wisdom that are each only half correct.

A "Rent is throwing money away"

This treats renting as though it produces nothing in return. It doesn't. Renting buys something real: **flexibility**, no maintenance risk, and no exposure to transaction costs if your life changes. It's the same trade as a gym membership versus buying home gym equipment — you're paying for access without the long-term obligation.

B "Buy as soon as you can afford it"

This treats buying as a guaranteed win the moment you sign a mortgage. It isn't. A home is a **leveraged, illiquid, expensive-to-enter-and-exit asset**. If you sell within a few years, transaction costs alone can erase years of appreciation before you see a dollar of gain.

> ⚠ THE REAL PROBLEM
>
> Both pieces of advice try to turn a math problem into a moral one. Math doesn't care about morals — it cares about your specific numbers. That's what the rest of this guide gives you a way to calculate.

The Real Question

The question was never "should I rent or should I buy." The real question is three-part:

1. What's my market's **price-to-rent ratio**?
2. What's my likely **holding period** — how long will I actually stay?
3. Where does my personal **break-even point** fall relative to that holding period?

Answer those three, and the emotional debate mostly disappears — you're comparing two numbers, not weighing "responsible" against "irresponsible."

SECTION 02

The Five-Step Break-Even Framework

Five inputs, run in order, that together produce your personal break-even point — the number of years it takes for buying to overtake renting.

1 Price-to-Rent Ratio

Divide the price of a home you'd actually buy by the annual rent of a comparable place.

FORMULA

Price-to-Rent Ratio = Home Price ÷ Annual Rent

Ratio	What It Signals
Under 15	Buying tends to make sense faster
15 – 20	Middle ground — holding period matters more
Over 20	Renting tends to win for longer, sometimes for years

2 Opportunity Cost of Your Down Payment

Your down payment isn't free money you're "putting to use" — it's capital you're removing from the market. If left invested at a historical ~7% return, it could be worth roughly double in ten years. Homeownership has to beat *that*, not just beat your monthly rent check.

3 Transaction Costs

These are front-loaded and brutal:

- **Buying in:** closing costs typically run 2–5% of the purchase price
- **Selling out:** realtor commissions and closing costs typically run 6–10%

On a $400,000 home, that can mean $15,000 going in and $30,000 coming out — before a single dollar of real equity is built.

4 Holding Period

This is where the first three numbers become an answer. Transaction costs get diluted across however many years you own the home. Own it two years, and those costs are crushing. Own it twelve, and they're a rounding error. *(Section 03 covers this in depth — it's the most misunderstood step.)*

5 Ongoing Cost Gap

Maintenance, property tax, insurance, and repair reserves that renters simply never see on their ledger — typically **1–2% of the home's value every year**, on top of the mortgage payment.

Putting It All Together

Your personal break-even point is the number of years it takes for this to flip from negative to positive:

THE FULL FORMULA

Break-Even = the point where
(Accumulated Equity + Appreciation)
− Transaction Costs − Ongoing Ownership Costs − Down Payment Opportunity Cost

(Total Rent Paid) − (Return on Investing the Rent/Mortgage Difference)

It looks like a lot of moving parts — because it is. That's exactly why almost nobody runs it by hand, and why most people default to a generic rule of thumb instead. Which brings us to the rule most people default to.

> 💡 **SHORTCUT**
>
> You don't have to calculate this by hand. The companion **Rent vs. Buy Calculator** runs this entire formula instantly as you adjust sliders for your market, rate, and down payment.

SECTION 03

Why the "5-Year Rule" Oversimplifies

The most repeated piece of rent-vs-buy advice on the internet — and why it's wrong for a large share of the people who hear it.

You've heard it: buy a home, stay at least five years, and you're "in the clear." It's repeated by realtors, parents, and finance influencers alike, with total confidence — as if it were a law of physics rather than a rough historical average from a completely different set of markets and mortgage rates.

Where It Actually Came From

Old National Association of Realtors data showed the typical seller held their home for five to eight years. Financial writers combined that with typical-era transaction costs (roughly 8–10%) and typical-era appreciation, and did rough napkin math: *after about five years, average appreciation usually covers those costs.* That's the entire origin — a generalization for a different decade, repeated because it's short enough to fit in a headline.

Four Reasons It Breaks Down

Variable	Why the Rule Ignores It
Price-to-rent ratio	Coastal markets (ratio 25–30+) can take 8–10 years to break even. Cheap Midwest markets (ratio under 13) can take 3 years or less. The rule never adjusts.
Mortgage rates	A 2–3 point rate swing shifts your break-even by a year or more. The rule says "five years" regardless of whether you locked in at 3% or 7%.
Transaction costs	Some states run 11–12% round-trip versus the 8% the rule assumes — requiring more years to dig out of that hole.
Down payment opportunity cost	The rule treats your down payment as "dead money." A $45,000 down payment invested instead could be worth $63,000 in five years — an opportunity cost the rule was never built to account for.

> **⚠ IT'S GOTTEN LESS RELIABLE, NOT MORE**
>
> Median homeownership tenure has stretched well past a decade in recent years, as many owners locked in low rates and are reluctant to sell into a higher-rate market. The rule assumed a five-to-eight-year holding pattern that increasingly doesn't match how long people actually stay.

The Honest Version

Your real break-even point is however long it actually takes — in your specific market, at your specific rate, with your specific down payment — for equity and appreciation to overcome transaction costs, ongoing costs, and lost investment growth. In a cheap, fast-appreciating, low-rate environment, that can genuinely be **3 years**. In an expensive, slow-appreciating, high-rate environment, it can stretch past **10**. Five is just the number sitting in the rough middle — which is exactly why it sounds reasonable, and exactly why it's wrong for so many people who hear it.

SECTION 04

Worked Example: Maya's Numbers

Seeing the framework run once on real numbers makes it click. Here's Denver, 2021.

THE SCENARIO

Comparable home: **$450,000** | Comparable rent: **$1,800/mo** ($21,600/yr) | Down payment: **10% ($45,000)**

Step	Calculation	Result
1. Price-to-Rent Ratio	$450,000 ÷ $21,600	≈ 21
2. Down Payment Opportunity Cost	$45,000 invested at 7% for 5 years	≈ $63,000
3. Transaction Costs — Buying In	3% of $450,000	$13,500
3. Transaction Costs — Selling Out (5 yrs)	8% of appreciated value	≈ $36,000
5. Ongoing Costs (5 yrs)	1.5% of value × 5 years	≈ $33,750

Ratio of 21 already puts Maya in rent-favoring territory, not buy-immediately territory. Once the down-payment opportunity cost, transaction costs, and ongoing costs are subtracted, renting and buying come out close enough over a **5-year horizon** that the decision should be made on lifestyle — not guilt about "throwing money away."

THE TWIST

Fast forward to year 8–9 in the same house: the math tips clearly toward buying. Transaction costs dilute across more years, the fixed mortgage payment stays flat while rent keeps climbing, and equity has had time to build. **Same house, same city, same person — different holding period, completely different answer.**

SECTION 05

Your Own Worksheet

Fill in your own numbers below, or use the companion calculator online for an instant result.

Home price you'd realistically buy	_____	$
Annual rent of a comparable place	_____	$
Price-to-rent ratio (price ÷ rent)	_____	ratio
Planned down payment	_____	$ / %
Mortgage rate	_____	%
Expected closing costs (2–5%)	_____	$
Expected selling costs (6–10%)	_____	$
Ongoing ownership costs (1–2%/yr)	_____	$ / yr
What your down payment could earn invested	_____	%
How long you realistically plan to stay	_____	years
My estimated break-even point	_____	years

💡 **FASTER THAN BY HAND**

Enter these same numbers into the Rent vs. Buy Calculator and it plots the full break-even curve for you automatically — including the year-by-year comparison chart.

SECTION 06

Common Mistakes to Avoid

The five most common ways people get this calculation wrong — in either direction.

Using a national average instead of your city's ratio. Price-to-rent ratios vary by a factor of two or three between metros. National advice is nearly useless without a local number.

Treating the down payment as "already spent." It's capital, not a sunk cost — always account for what it could have earned invested elsewhere.

Ignoring selling costs when estimating a short stay. The 6–10% you pay on the way out is often larger than the 2–5% on the way in, and it's the one buyers forget to plan for.

Generalizing from one person's outcome. Your cousin's "best decision ever" and your friend's "biggest mistake" are both true statements about different markets and different holding periods — neither is a rule for you.

Applying today's rate environment to an old rule of thumb. A rule calibrated to 3% mortgage rates doesn't hold at 7%, and vice versa. Always re-run the numbers at your actual rate.

⚠ REMEMBER

Renting isn't "throwing money away," and buying isn't a guaranteed win. Both are trades — flexibility for one, leveraged equity for the other. The math simply tells you which trade fits your specific timeline.

SECTION 07

Quick Reference & Next Steps

Input	Typical Range
Price-to-rent ratio (buy-favoring)	Under 15
Price-to-rent ratio (rent-favoring)	Over 20
Closing costs (buying in)	2 – 5%
Selling costs (moving out)	6 – 10%
Ongoing ownership costs	1 – 2% / year
Historical market return (opportunity cost benchmark)	~7% / year
Typical real-world break-even range	3 – 10 years

Next Steps

1. Look up your market's price-to-rent ratio using your target home price and a comparable rental.
2. Plug your numbers into the worksheet on page 9, or the companion calculator for an instant result.
3. Compare your break-even point to how long you realistically expect to stay.
4. Make the decision on the math first — then weigh lifestyle factors once you know which way the numbers point.

KEEP LEARNING

This guide is a companion to the Sam's Economics video "Rent vs. Buy — The Math Changes at This One Number." For more threshold-based breakdowns like this one, subscribe to the channel and try the full Rent vs. Buy Calculator online.