



On the Move: Renting Basics

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GLOSSARY

Budget: An itemized summary of probable income and expenses for a given period. A budget is a plan for managing income, spending, and saving during a given period of time.

Contract: An exchange, promise, or agreement between two parties that is enforceable by law. For example, a car buyer agrees to pay the amount financed at an agreed-upon interest rate for the length of the contract.

Credit report: A loan and bill payment history kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood that a future debt will be repaid.

Lease: A contract that states the terms and conditions a landlord and a tenant agree to regarding rental property, including payment terms, the responsibilities of both parties, and consequences if terms and conditions are not met, to ensure that both parties of the lease are protected.

Recession: A period of declining real income and rising unemployment; significant decline in general economic activity extending over a period of time.

Security deposit: Money paid by a tenant to a landlord that the landlord holds during the occupancy and may use to pay for any damage or unpaid rent when the lease ends or must otherwise return to the tenant. State laws dictate how soon it must be repaid after the lease ends.

“I remember the first pangs of stress arriving at the end of school. Once I graduated I had to get a full-time job, worry about health insurance, saving money, paying rent—things I’d never thought about before.”
—Ezra Koenig, American singer, songwriter, radio personality, and lead vocalist and guitarist of Vampire Weekend

Graduation—from high school, vocational or technical school, or college—is an important milestone. Just as Ezra Koenig once expressed, it marks a life transition. You have to take care of things you likely never thought about before. Obviously, having an income is a priority for most people, followed closely by a home of their own. Some people consider getting their “own place” a rite of passage into adulthood. Moving into adulthood and living on your own can be both a little scary and exciting. Freedom comes with personal and financial responsibility, and finding a new place to live is a huge step for most young people.

Financial Planning

Before you even begin looking for a place to rent, it is important to have your monthly **budget** in order. You’ll need to know how much you can realistically spend on housing. In order to know for sure, you’ll have to remember you will have other expenses besides your rent. Some of these expenses include food and household items, transportation, and perhaps utilities (electricity, water, etc.). You will also need to be able to pay the “start-up” costs of renting: It is common for renters to have to pay the first and last month’s rent up front and also provide a security deposit (discussed below). And don’t forget, you will also likely want to purchase some furniture and other items for your new home.

Landlords often use a formula to determine whether a potential renter has sufficient income to pay the rent. One particular formula evaluates whether the potential renter’s annual income is 40 times the monthly rent. For example, to afford a \$500 monthly rent payment, a landlord might expect the renter to have at least a \$20,000 annual income. An option to consider to help make rent more affordable is to find a roommate to share the costs. But remember—a roommate will also share your space.

The PACED Decisionmaking Model

Because there are many options to consider when choosing a place to live, it is helpful to use a PACED decisionmaking grid to narrow down your choices and make a decision. The “P” in PACED stands for **problem**, for example, finding an apartment. The “A” stands for **alternatives**—the choices you have. Here those would be the potential places you could live. The “C” stands for **criteria**. These are the features that are important to you that will help you evaluate your options. The “E” stands for **evaluate**. You evaluate each of your alternatives according to the criteria you’ve chosen. And finally, the “D” stands for **decide**. You decide which alternative is the best option.

In the case of an apartment search, the grid can be used in different ways. Say you are trying to decide *where* you want to live. There are benefits to living downtown, or in mid-town, or in the suburbs. How can you decide? Here’s how you might use the grid.

Alternatives \ Criteria	Criteria					
	Close to work	People my age	Nightlife	Close to major highways	Close to public transportation	Rental expenses
Downtown loft	+	+	+	+	+	-
Central West End apartment	-	+	+	+	+	-
South County apartment	-	-	-	+	-	+
West County apartment	-	-	-	+	+	-

You can evaluate your alternatives according to your criteria simply by placing a “+” (plus) sign when the alternative meets the criterion and a “-” (minus) sign when it does not. In this case, a downtown loft would be the best choice, provided you could afford it or could find a roommate to share the rent. Of course, if you worked in the Central West End or don’t need public transportation, you might come to a different decision. Let’s say you’ve decided on an area, and you’ve found several places that appeal to you and that you can afford. Here’s how you might use the grid to evaluate which apartment best meets the criteria important to you.

Alternatives \ Criteria	Criteria					
	Updated kitchen	Pool	Workout room	Utilities paid	Accepts pets	Secure parking
1208 Park Ave., Apt. 504	+	-	+	-	+	+
500 S. Main, Suite 6	+	+	-	+	+	+
256 Market, Apt. 5	+	-	-	+	-	+

Based on this example, if the grid included all of the criteria important to you, 500 S. Main, Suite 6 would be the best choice.

Finding a Place

Once you have figured out what you can afford, it’s time to start looking at rental options. Things you’ll want to consider are the location, amenities or services offered, and other aspects you find important. For example, apartment complexes often have pools, workout facilities, family gathering spaces, and other features. Some places include cable television and internet access or paid utilities. You’ll want to carefully weigh all of your options before making a choice. A helpful tool for that is the PACED decisionmaking model (see the boxed insert), which helps you think through and rate your options.

An online search of “apartments for rent” for a specific area will likely direct you to websites with listings of available apartments. Other good places to look are

newspapers, either in print or online, and local real estate guides. Free copies of real estate guides are often found in grocery store lobbies and outside other various retail locations. “For rent” signs are often posted on or in front of available apartments, so driving around the areas you might like to live in might help you find some good options. And it will give you a feel for what you like or don’t like about a neighborhood.

Renting Basics

When you rent an apartment, you will be required to sign a document called a **lease**, which is a legal **contract**. A lease states the terms and conditions the landlord and the tenant agree to regarding the rental property. When you sign a lease, you are making a legally binding agreement. Your responsibilities, and those of your landlord,

are among the terms and conditions outlined in the lease. For example, almost all landlords will require you to pay a **security deposit** and the first- and last-month's rent. The amounts are specified in the lease, as well as how a security deposit might be used. For example, if you cause any damage to the property—say you paint the walls without permission—you could be held responsible for repair costs and a portion (or all) of your security deposit could be withheld to pay for it. The lease will also likely state how you are required to take care of the property and when to notify the manager or landlord of any maintenance issues.

How long you agree to rent the apartment and the landlord agrees to rent it to you—if you follow the terms of the lease—will be stated in the lease. Most rentals are for at least a year. If you decide not to stay for the agreed-upon rental period, and “break the lease” as it is often called, your landlord could legally make you pay the remaining rent. Exactly what you would have to pay would be spelled out in the lease.

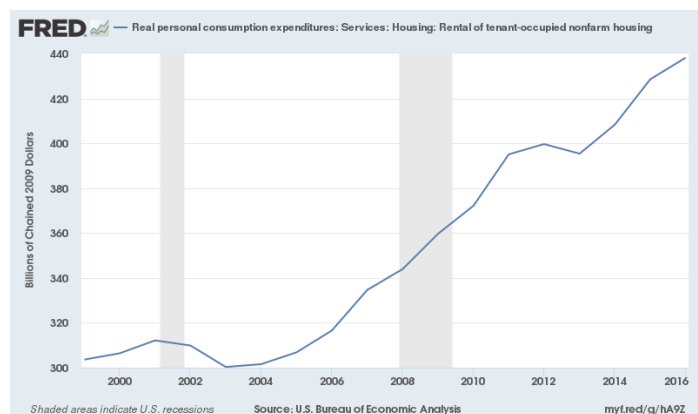
Other rules and responsibilities will also likely be specified in the lease, such as whether personal property insurance must be carried, how many and what kinds of pets may be kept on the property, and procedures for moving in and out of the property. A lease may also specify that if ordinances and laws are broken on the premises, you could face eviction.

Some leases may include disclosures or addendums. A disclosure is information about the property that might affect the tenant. For example, lead-based paint is illegal and no longer used. It can be harmful, especially to young children, so the landlord would have to tell you—*disclose*—if there had been lead paint on the walls or woodwork. An addendum is an addition to the lease that specifies additional rules or agreements. For example, if the landlord lets you have a dog or cat, there may be rules listed in a pet addendum. Some places allow pets for an additional fee or a higher monthly rent payment.

Will the Landlord Choose You?

There are two primary ways landlords evaluate applicants: credit and criminal background checks. To apply for a lease, you will have to give the landlord your permission to check your background and provide your Social Security number, perhaps your driver's license

Figure 1
Change in Spending on Rental Housing, 1999 to 2016



SOURCE: FRED®, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/DTENRX1A020NBEA>, accessed December 15, 2017.

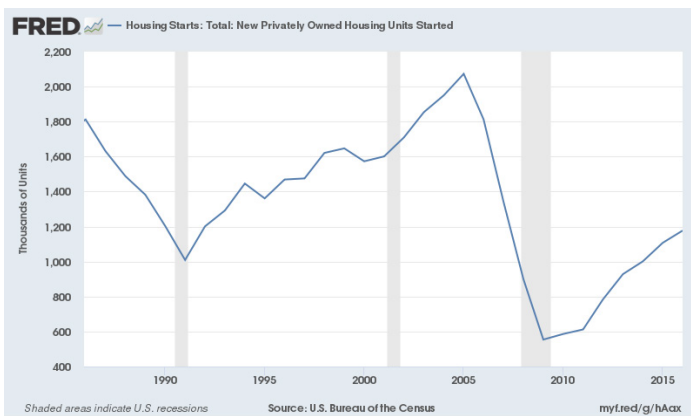
number, and other information such as your previous addresses and names you might be known as. The landlord will also review your **credit report** to see if you pay your bills on time, how much debt you currently have, if you defaulted on (didn't pay back) debt, or if you have any foreclosures or bankruptcies in your past. These negative events don't necessarily or automatically mean a landlord won't rent to you, but you will have to explain why they occurred. A criminal record can prevent you from being eligible to rent. In fact, committing some crimes can have a lasting negative effect on your ability to rent or even live in certain properties.

The Rental Market

More and more people are renting for a variety of reasons. In fact, the percentage of households renting a home increased from 31.2 percent of households in 2006 to 36.6 percent in 2016, nearing the 1965 record of 37 percent.¹ When increasing numbers of people are looking for rental property, the price of rent may increase. Figure 1 shows the change in spending on rental housing from 1999 to 2016, which has increased fairly steadily since 2004. While there are likely a number of reasons for the increase, more people choosing to rent is a possibility. In addition, as more people seek rentals, it increases the demand for more rental units; this could play a role in higher rent prices and more household income spent on rental housing.

When there is a shortage of rental housing, the market is likely to respond by building additional units. Figure 2

Figure 2
Construction of Housing with at Least Two Rental Units



SOURCE: FRED®, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/HOUST#0>, accessed December 15, 2017.

shows new construction of housing built with at least two rental units. Although the number of new housing units built dipped strongly before the 2007-09 **recession**, it has continued to increase since. Peoples' choices and incomes affect market outcomes.

Help for Those Who Need It

The U.S. Department of Housing and Urban Development (HUD) provides financial assistance and sometimes rental properties for people who meet certain income-eligibility requirements. These programs are administered by local Public Housing Agency (PHA) offices. Housing administered by the PHA is commonly called "Section 8 Housing," named after the federal statute language. Just as private landlords may run background checks on their potential tenants, the PHA runs similar checks and requires those who receive public assistance to meet certain requirements. In fact, the PHA has the legal right to deny assistance to those convicted of certain types of criminal offenses.² Remember, wise financial and personal decisions help prevent negative consequences.

Legal Protection

Although people can be denied the right to rent for legitimate reasons, such as poor credit, inadequate

income, or certain criminal offenses, there are federal laws to protect from discrimination. It is illegal for landlords to discriminate on the basis of a person's race, color, religion, sex, handicap, familial status, or national origin.³ According to the law, for example, it is illegal for a landlord to tell someone that a property is not for rent when it actually is or refuse to rent to someone based on any of those characteristics. If you are turned down for rental housing, be sure to ask why. If there is a valid explanation, you may be able to take action to repair the situation. For example, you could improve a low credit score by making payments on time or making arrangements to pay past-due accounts. If you feel you have been discriminated against, you can file a complaint through www.HUD.gov.

Conclusion

Getting your own place is a major step toward independence and adulthood. It is often considered a rite of passage, and living successfully on your own helps build confidence. You can get started on a successful path through careful preparation and effective planning. Creating a realistic budget is important. Once you've started your search for a new place to live, weighing your options with important criteria will help you find the best choice. And when you sign a lease, make sure you clearly understand the terms so there aren't any financial surprises. Finally, if you maintain a good credit record and make good personal choices, the transition into adulthood will go far more smoothly. ■

Notes

¹ Cilluffo, Anthony; Gieger, Abigail and Fry, Richard. "More U.S. Households Are Renting Than at Any Point in 50 Years." Pew Research Center, July 19, 2017; <http://www.pewresearch.org/fact-tank/2017/07/19/more-u-s-households-are-renting-than-at-any-point-in-50-years/>.

² National Archives and Record Administration. "Code of Federal Regulations, Title 24. Housing and Urban Development, Parts 700 to 1699." April 1, 2017; <https://www.gpo.gov/fdsys/pkg/CFR-2017-title24-vol4/pdf/CFR-2017-title24-vol4.pdf>.

³ U.S. Department of Justice. "Fair Housing Act." <https://www.justice.gov/crt/fair-housing-act-2>, accessed November 30, 2017.

Name _____ Period _____

Federal Reserve Bank of St. Louis *Page One Economics*®:**“On the Move: Renting Basics”****After reading the article, select the best answer to each question.**

1. Which of the following defines the terms and conditions of renting a property?
 - a. Budget
 - b. Lease
 - c. Credit report
 - d. Background check

2. What is the typical length of a lease?
 - a. 3 months
 - b. 6 months
 - c. 9 months
 - d. 12 months

3. What is the purpose of a security deposit?
 - a. To pay for damage you may cause to the property during your stay
 - b. To pay for changes to the security system due to your move
 - c. To pay for medical bills if someone is injured while visiting you
 - d. To give the landlord extra money in case you vacate the property

4. What does the saying “break the lease” mean?
 - a. To frequently get behind paying the rent
 - b. To have a pet live with you without permission
 - c. To damage the property
 - d. To move out before the lease ends

5. Which of the following is a common way landlords estimate if your income is sufficient to pay rent?
 - a. They multiply your biweekly income by 2 and subtract the rent amount.
 - b. They multiply your monthly income by 12 and make sure the rent amount is under 10 percent of the total.
 - c. They add up all your income, subtract your expenses, and see if there is enough to pay rent.
 - d. They check to see if your annual income is 40 times the monthly rent.

6. Which of the following is a potential drawback of having a roommate?
 - a. They share utility expenses.
 - b. They share the space.
 - c. They share responsibility for the lease.
 - d. They share the rent payment.

Use the PACED decisionmaking grid below to answer questions 7 to 10.

Alternatives \ Criteria	Near campus	Tennis courts	Paid cable TV	Utilities paid	Dogs allowed	Secure parking
1208 Park Ave., Apt. 504	+	-	+	-	+	+
500 S. Main, Suite 6	+	+	-	+	+	+
256 Market, Apt. 5	+	-	-	+	-	+

7. How many criteria are included?
 - a. 3
 - b. 4
 - c. 5
 - d. 6

8. How many alternatives are included?
 - a. 3
 - b. 4
 - c. 5
 - d. 6

9. Two of the properties have tennis courts.
 - a. True
 - b. False

10. Based on the information in the grid, which apartment is the best choice?
 - a. 500 S. Main, Suite 6 because dogs are allowed and the other choices lack tennis courts
 - b. 256 Market, Apt. 5 because the criteria it meets are important and valuable
 - c. 1208 Park Ave., Apt. 504 because it is the only choice with paid cable television
 - d. 500 S. Main, Suite 6 because although it does not meet all the criteria, it meets the most