

The Boulder Property Network At RE/MAX of Boulder, Inc.



Why Buy Vs. Renting ?



The Boulder Property Network

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Why Buy?





Why Rent When You Can Buy?



**Are you unsure about
becoming a
HOMEOWNER?**

**Do you wonder about the
TAX INCENTIVES?**

**Are you worried about
whether home buying is
a good INVESTMENT?**



Rents Increase Over Time

Over the past ten years, the cost of rental housing in the U.S. has increased an average of 3% per year. If that trend continues, that means that an apartment or home renting for \$1,000 per month will cost more than \$1,300 a month in ten years. If you rent the same home for ten years, the total amount you would pay for rent will equal \$137,567!

Year	Monthly Rent <small>(avg. increase 3% per year)</small>	Total Annual Rent
1	\$1,000	\$12,000
2	\$1,030	\$12,360
3	\$1,061	\$12,731
4	\$1,093	\$13,113
5	\$1,126	\$13,506
6	\$1,159	\$13,911
7	\$1,194	\$14,329
8	\$1,230	\$14,758
9	\$1,267	\$15,201
10	\$1,305	\$15,657
Total Rent Paid Over Ten Years		\$137,567

Owning Can Lead to Tax Savings

None of that \$137,567 that you paid in rent is returned to you, either through savings or as an investment. Homeownership, on the other hand, often has tax advantages over renting a home, and those advantages can help you save money. For many homeowners, part of the monthly mortgage payment “comes back to you” in tax savings.



Why Rent When You Can Buy (continued)...

An Example of Ownership

You purchase a home that costs \$200,000. Your down payment is \$10,000 (plus closing costs – expenses incurred to actually process the transaction). You finance the balance with a 30-year fixed rate mortgage at 5.5 percent interest. Your monthly payments (not including utilities, maintenance, insurance, etc.) are:

Monthly Mortgage & Tax Payments

mortgage (principal & interest)	\$1,079
property tax (@1.25% tax rate*)	\$208
Total Monthly Payment	\$1,287
tax savings per month (assuming a 25% income tax bracket)	
mortgage interest tax deduction	\$216
tax deduction for property tax	\$52
Total Monthly Tax Savings	\$268
Total Monthly Cost After Tax Savings	\$1,019

**property tax rates vary by city and county*

Owning your home reduces your federal income tax bill by \$268 a month. In addition, as you pay down your mortgage loan, your equity – the wealth you have in your home – increases. If home prices rise, the equity you have in your home increases, too.



Why Rent When You Can Buy (continued)...

Buyers Usually Come Out Ahead

Given that price growth has recently deviated from its usual pattern of increase, the table on the next panel considers four different price growth scenarios, including a loss. You may be surprised to see that the homeowner still comes out ahead of the renter even if there is a small decline in the home's value over the next year. Favorable interest rates and lower prices have ushered in some of the best affordability conditions in a generation.

Annual Costs

	Homeowner	Renter
Total Annual Costs		
annual mortgage/rental payment	\$12,948	\$12,000
real estate taxes	\$2,500	\$0
Tax Deductions/Equity Builders		
mortgage interest deduction	\$2,592	\$0
tax deduction for property tax	\$624	\$0
mortgage principal accumulation	\$2,559	\$0
appreciation		
no growth	\$0	\$0
loss*	\$ -2,000	\$0
below trend growth**	\$1,200	\$0
average growth***	\$9,000	\$0

Annual Costs Less Equity Gains :

no growth	\$ 9,673	\$12,000
loss*	\$11,673	\$12,000
below trend growth**	\$ 8,473	\$12,000
average growth***	\$ 673	\$12,000

*Assumes a 1% annual depreciation ** Assumes a 0.6% annual appreciation

• ***Assumes 4.5% annual appreciation



Why Rent When You Can Buy (continued)...

Homeownership Builds Wealth for Households

The Federal Reserve Board estimates that homeowners' net worth has ranged between 31 and 46 times more than that of renters in the years 1998 to 2007. In 2007, the median net worth for homeowners was \$234,200 compared to \$5,100 for renters. Even though that difference will surely narrow as a result of house price declines since 2007, homeowners will likely still have substantially greater net worth than renters; NAR estimates 40 times greater net worth among typical owners compared to typical renters in 2010. How do you build up your net worth? As a homeowner, you build wealth in two ways: through paying down the principle on your mortgage and through those "appreciating returns" on your home. We've already seen how your \$200,000 home could be worth \$286,948 in ten years. In addition, you are paying down the principal on your mortgage. Remember that \$200,000 you borrowed at 5.5 percent over 30 years – that debt amount is decreasing every month and every year as you make payments.

Year	Home Price	Mortgage Debt	Net Worth
1	\$200,000	\$187,441	\$12,559
2	\$201,200	\$184,737	\$16,463
3	\$210,858	\$181,880	\$28,977
4	\$220,346	\$178,863	\$41,483
5	\$230,262	\$175,675	\$54,587
6	\$240,624	\$172,308	\$68,316
7	\$251,452	\$168,750	\$82,701
8	\$262,767	\$164,992	\$97,775
9	\$274,591	\$161,022	\$113,570
10	\$286,948	\$156,828	\$130,120



Why Rent When You Can Buy (continued)...

After the first year, you now only owe \$187,441 on a home that is worth \$200,000. As home price growth returns to a normal level the amount of wealth that you net from appreciation will increase. At the same time, mortgage payments reduce your outstanding debt. As your debt decreases and the home value increases, you accumulate wealth from the value of your home. In addition, over this ten-year period, you will have a significantly lower after-tax payment for housing. Each year as your home appreciates and you continue to pay down your mortgage debt, you increase your own net worth.

Why Buy Now?

You may wonder whether it is worthwhile to wait to purchase your home until prices are at their lowest. In some local areas, prices have already begun to rise again. However, prices are not the only factor that should drive your decision. Currently, interest rates are near generational lows that greatly improve the affordability of homes. Further on the annual cost table, you can see that even if home prices decline, the possible tax savings of owning a home can lead to a lower cost for the buyer, not the renter. Finally, and most importantly, when you have made the decision to commit to homeownership because you are ready, market conditions are a secondary concern. In fact, the NATIONAL ASSOCIATION OF REALTORS® 2010 Profile of Home Buyers and Sellers found that five in ten first-time buyers purchased a home because the buyer was ready to make the commitment to homeownership.



Why Rent When You Can Buy (continued)...

Homeownership– It’s NOT Just About Money

The “numbers tell the story” examples should ease your mind about the financial aspects of becoming a homeowner. But there are other, non-financial benefits to homeownership that may partially explain the fact that buyers buy when they are ready. Several research studies indicate that homeownership adds to the value of communities, has positive effects on children, and even contributes to increased voter participation rates.

Homeownership: The American Dream

More than two thirds of American households own their home. They know the benefits of homeownership, from the accumulation of home equity, other financial benefits, and the pride of owning a place of their own. They also had to take that first step of deciding “I’m ready to be a homeowner.” REALTORS® assisted many of today’s 75 million homeowners in both their decision to buy and their first home purchase. REALTORS® are real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and who abide by the Association’s strict Code of Ethics and Standards of Practice. They can help guide you to first-time homebuyer programs in your area, as well as assist you in searching for and buying your home.



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