

Own Vs Rent in 2018

With rising interest rate and home prices, people are asking "Does it still make sense to buy a home?"

The quick answer is: IT DEPENDS!

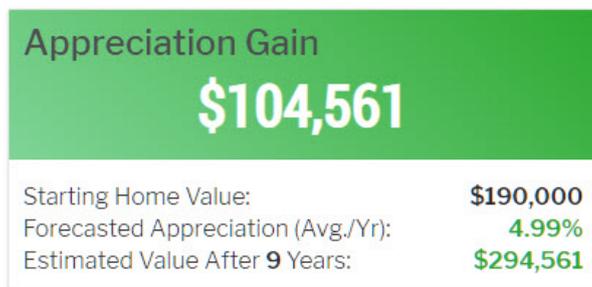
In Yuma county, the average single family home sells for about \$190,000. With a 5% down payment, the monthly payment would be roughly \$1240 a month. So how does that compare to renting? Well there are a few things to consider.

Owning means more responsibility

If you own your home and something breaks, you have to fix it. It's your problem. There's no landlord to call. The good news is that is easily remedied by a home warranty. In fact, that's how a lot of landlords deal with it anyway. Pay \$500 or so a year for a home warranty, and then all you have to pay is a copay for the service call if something comes up. But to be fair, let's factor in an extra \$100/month for owning expenses. So if your mortgage payment including taxes and insurance is \$1240, let's call it \$1340 compared to renting.

Owning means less mobility

If you aren't sure you are ready to commit to staying in one place for at least 3-5 years, you might want to reconsider homeownership. While it is true that part of your house payment goes toward paying down your loan, and homes also tend to go up in value over time, there are also costs associated with buying and selling real estate. To make sure you don't find yourself stuck in a house and unable to sell for what you owe, plan on 3-5 years minimum. In our example of buying a house for \$190,000 and then selling it 9 years later, we estimated 8% costs which is \$23,565. If the house appreciates at a modest 3% a year, the \$104,561 increased value will more than make up for the selling costs, but still....something to think about.



Cost To Sell **\$23,565**

Real Estate Commission: **8%**

Based on **\$294,561** Future Value after 9 Years

Rents tend to go up...and so do property taxes

If you figure that rents go up on average about 3% a year, that means a \$1200 rent payment will turn into \$1236, then \$1273, \$1311, \$1351, and all the way up to \$1520 by the 9th year. When you factor in renter's insurance, you're at \$1571 rental cost by year 9. One benefit of owning your home is that it usually comes with a fixed rate mortgage. That means you don't have to worry about your payment going up every year. However, your payment does include property taxes and homeowners insurance, and taxes tend to go up a little each year. So that's something to consider. Even so, the taxes are a relatively small part of your total house payment, so if you figure a 2% increase in property taxes each year, your house payment will be \$1367 by the 9th year. Do the math and you

actually save \$4426 over those 9 years in total payments, even factoring in \$100 a month for repairs and maintenance.

Estimated Cashflow

	Buying Yr1	Rent Yr1	Rent Yr9
Monthly P & I	\$969	\$1,200	\$1,520
Prop. Tax / Ins.	\$271	\$40	\$40
Maint. & Repairs	\$100	\$0	\$0
Monthly Exp.	\$1,340	\$1,240	\$1,560
Total Cashflow	\$146,185		\$150,611
Interest Rate	APR	Annual Rental Increase	
5.000%	5.074%	3%	



Cashflow Difference	\$4,426
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Owning means building equity even if the house doesn't go up in value

One thing we can't dispute is that when you have a normal (fully amortizing) mortgage, part of your payment each month goes toward paying the loan down. That means you are building equity even if we're in a market where homes are not going up in value. Over 9 years on a \$180,500 loan at 5%, you will build roughly \$29,505 of equity through this means. Not bad!

Amortization Gain	
\$29,505	
Original Loan Amount:	\$180,500
Remaining Principal Balance:	\$150,995
Amortization Gained after 9 Years	

Net Gain of Ownership

In our example of 3% appreciation a year, factoring in costs to sell and the initial higher payment for the first couple of years, the 9 year result of owning instead of renting is an increased \$111,127 net worth. Now that's something worth working for!



Here is a link to a full report of all these numbers and figures: <https://www.mbshighway.com/view/39V-br>

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