

## **Three Reasons to Buy Rather Rather than Rent**

Renting may not be the best in the long term, says Carter Murdock and Lawrence Yun, economists with the National Association of Realtors®. This is because the cost of U.S. rental housing has increased an average of 3% per year over the last 10 years. For example, a rental unit that currently costs \$750 per month will cost more than \$978 per month in ten years.

There are three advantages to homeownership:

Taxes

Appreciation

Equity

For example: A buyer puts down \$10,000 (plus closing costs) to buy an \$110,000 home. The remainder is financed with a 30 year fixed rate mortgage at 6.5%. Monthly principal and interest will be \$632 and monthly property taxes \$115, a total of \$747. This is about the same monthly cost as the renter in the first paragraph.

The buyer has something the renter does not have. Assuming the buyer is in the 30% income tax bracket, the **mortgage interest tax deduction** the first year is \$162 per month; the buyer also receives a **tax deduction for property tax** of \$34 per month. That's a monthly tax deduction of \$196.

On average homes nationwide have **appreciated** at 4.5% over the past 10 years. That is \$4,950 on the \$110,000 home in the first year. In the second year, the home's value is \$114,950 and **appreciates** another \$5,173. In three years the home's value is \$120,123 and **appreciation** \$5,406.

The **equity factor** takes place with home ownership as is shown by the following example:

By the end of ten years the amount owed the lender will have been reduced to \$86,620. This means the owners have accumulated \$13,380 in **equity** they would not have realized had they been renting.

After 10 years, a home that originally cost \$110,000 could be worth \$163,470 assuming a 4.5% appreciation rate discussed earlier. Combining the increase in **appreciation** and the **equity** built up through making the monthly house payments the average household can expect to accumulate \$66,850 in home equity in ten years. Meanwhile according to Murdoch and Yun the renter who was paying \$750 per month is now paying \$978.

**Taxes, appreciation and equity** are three benefits to homeownership but do not cover the true benefit of homeownership. The true reason people desire a home is the **pride** and **security benefits** which they get to enjoy. The financial rewards just come along as additional extras.

