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 act 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 owner a place of their own. They also had to take the 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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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?

Buying a first home can be an intimidating process. But the first stop is deciding if: I want to own a home; I can afford to own a home; owning a home makes sense for me financially and emotionally.

If you are still struggling with those decisions, here are some facts that might help you take that first step towards becoming a homeowner.

Why Buy Now?

You may wonder whether it is worthwhile to wait to purchase your home until prices are at their lowest . Prices are not the only factor that should drive your decision. Currently, interest rates are near generational lows that greatly improve the affordability of home. 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. Also, the homebuyers tax credit is currently available but only though April 2010. 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 ASSOCATION OF REALTORS® 2009 Profile of Home Buyers and Sellers found that four in ten first-time buyers purchased a home because the buyer was ready to make the commitment to homeownership.

Rents Increase Over Time

Over the past ten years, the cost of rental housing in the U.S. has increased an average of 3.5% per year. If that trend continues, that means that an apartment or home renting for $1,000 per month will cost more than $1,3000 a month in ten years. If you rent the same home for ten years, the total amount you would pay for rent will equal $140,777!

Year	Monthly Rent (avg. increase 204% per year)	Total Annual Rent
1	$1,000	$12,000
2	$1.035	$12,240
3	$1,071	$12,855
4	$1,109	$13.305
5	$1,148	$13,770
6	$1,199	$14,252
7	$1,229	$14,751
8	$1,272	$15,267
9	$1,317	$15,802
10	$1,363	$16,355

Total Rent Paid Over Ten Year $140,777

Owning Can Lead to Tax Savings

None of that $140,777 is returned to you, either though 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.

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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	$1,079
Property tax (@1.25% tax rate*)	208
Total Monthly Payment	**$1,287**
Tax saving 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

Owing 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.

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 grown 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

**assumes a 1% annual depreciation*
*** assumes a 3.6% annual appreciation*
**** assumes 4.5% annual appreciation*

Homeownership is a Good Investment for Qualified Buyers, But No Investment is Guaranteed

For the majority of Americans, a home is their largest financial asset and a major component of their investment portfolio. The NATIONAL ASSOCIATION OF REALTORS® estimates that home value rises, on average, by 4.5 percent a year. That's a steady return on investment. Still, no investment is guaranteed. Many Americans lost value in both their homes and investment accounts in the last few years, and it will take some time to recover. Even when the recent downturn is considered, one's own home is a much less volatile asset than stocks, bonds or mutual f funds. And most importantly, it is a place to call home while you own it.

As an example, let's look again at that $200,000 home. Unlike your rental unit, your home usually appreciates over time. Instead of assuming average growth, we assume that prices are flat in the first year of ownership and pick up, but only slightly, in the second year. In the third year of ownership, your home has appreciated to a modest $210,858. After ten years, assuming a return to an average 4.5 percent appreciation rate*, your $200,000 home will be worth $286,948. Not only do you earn a rate of return on your original purchase price, you also get a return on any subsequent appreciation.

**Average price appreciation from 1970 to 2008 was 6.0%.*

"Appreciating" Returns

Year	Price Growth	Home Value
1	0.0%	$200,000
2	0.6%	201,200
3	4.8%	210,858
4	4.5%	220,346
5	4.5%	230,262
6	4.5%	240,624
7	4.5%	251,452
8	4.5%	262,767
9	4.5%	274,591
10	4.5%	286,948

Total Appreciation After Ten Years $86,948

Homeownership Builds Wealth for Households

The Federal Reserve Board estimates that homeowner's net worth has ranged between 31 and 46 times more than that of renters in the years of 1996 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 renter. 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 return" on your home.

We've already seen how your $200,000 home could be worth $286,948 in ten years. In addition, you're paying down that 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	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	54,857
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

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.

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