

COST OF NOT BUYING A HOME

1) Rent Lost

Rent = \$1,200/MO The average person takes 30 days to buy.
If you wait 6 months, you will pay you landlord **\$6,000**

2) Rate Change

If today's rate is 5.5% on a 30 Year fixed rate mortgage, assuming a \$200,000 sales price with 5% down:

Your payment will be....**\$1,073 per month...**

The following shows what happens to your payment if your rate goes up by the time you buy (in 1/2% increments)

Rate	Pmt	Loss/mo	Cost/YR	Cost 7/YRs	Cost 30/YRs
6.0%	\$1,133	\$60	\$720	<u>\$5,040</u>	<u>\$21,600</u>
6.5%	\$1,194	\$121	\$1,452	<u>\$10,164</u>	<u>\$43,560</u>
7.0%	\$1,256	\$183	\$2,196	<u>\$15,372</u>	<u>\$65,880</u>

This number you must look at from the long term picture. If you wait 6 months to buy a home, it is possible (or even likely) that the rates will be up .5%. The cost/loss to you IS NOT \$60 per month. The cost is \$60 per month times however many months you own the home. The average American owns a home 7 years, so that loss equals **\$5,040**. If you keep this home as a rental property (a great idea especially for your first home and when rates are this low) then the loss is times 30 years, or **\$21,600**. Of course if you look at it like a good financial planner would, your loss is not simply the \$21,000 but it's that amount times the opportunity cost of lost interest had you invested that money yielding 5%-10% appreciation compounded annually. This of course multiplies the loss to 2 to 3 times the actual cash loss!!!!

And if you are waiting until "next year" to buy that rental property..."Hello,...McFly!?"



3) Appreciation Lost (Assuming a \$200,000 sales price)

<u>Appreciation</u>	<u>Per Month</u>	<u>6 Months</u>	<u>1 year</u>
3%	\$500	\$3,000	\$6,000
5%*	\$833	\$5,000	\$10,000
6%	\$2,000	\$6,000	\$12,000
8%	\$1,333	\$16,000	\$32,000
10%	\$1,666	\$20,000	\$40,000

***Metro Atlanta typically appreciates at an average rate of 4%-5% per year. Atlanta was predicted to appreciate 24% over the next 5 years (CNN.com “Top 10 Places to buy-NOW”)**

4) Tax deduction/interest write off

This is the trickiest of the calculations because everybody’s tax situation is different, and the tax code is a tad bit complicated. But as a general rule, you can write off 100% of the interest portion of your payment. And if you didn’t know, the interest portion is MOST of the payment (for the first few years anyway)

For example: using the examples above, with a \$1,073 per month payment (\$190k loan @ 5.5%), the interest portion of the first payment is around \$850 per month. So that’s the write off that you will NOT be getting per month until you buy. Most people buying this price home are in the 28% tax bracket plus 6% state. That means the actual cash loss is the monthly payment times your tax bracket. Let’s say 33%. So in this example, you are losing \$280 per month CASH in tax deduction that you are not receiving. That’s not even taking in to account that writing off \$10,200 per year (\$850 times 12 months) would probably take you in to a lower tax bracket; consequently, you would pay taxes at a lower rate..... (again, I am not an accountant nor do I ever want to be one; so, consult a CPA regarding your particular tax situation)

So,....Your “lack of deduction loss” is appx..... **\$250- \$300 per month**

SUMMARY: IF YOU WAIT 6 MONTHS TO BUY, YOU ARE LOSING BETWEEN \$8,000 AND \$15,000 IN THAT TIME ALONE! IF YOU MISS TODAY’S RATE, IT COULD COST ANOTHER \$15,000 TO \$100,000 MORE OVER THE LONG HAUL.



One last point: Affordability and lifestyle

I do not recommend **ANYONE BUYING A HOME** that they can not afford, or that will make them 'house-poor'. I recommend that you should be fairly conservative. This means add up your PITI (total mortgage payment with taxes and insurance added in) and your payment should NOT be above 30% of your GROSS monthly income (before taxes).

Remember this, though: If you 'wait' to buy, that \$200,000 home will most likely be \$210,000 next year (5% appreciation). So the question you must ask is, "Is my income going up 5% per year?" If not then you will be able to afford LESS in a year than you can now.

