

Convincing Advantages with Standard Deduction

The new tax law doubles the standard deduction and it is estimated that over 90% of taxpayers will elect to use it. However, even without considering tax benefits, homeownership has convincing advantages.

Besides the personal and social reasons for owning a home, one of the most compelling is that it is cheaper. Principal reduction and appreciation are powerful dynamics that reduce the effective cost of housing.

Amortized loans apply a specific amount of each payment to the principal amount owed to retire the loan over the term. Some people consider it a forced savings account; when the payment is made, the unpaid balance is reduced.



The price of homes going up over time is appreciation. While there are lots of variables and it is not guaranteed, it is easy to research the history of an area and make predictions based on supply and demand.

Interest rates are still low and can be locked-in for 30 years. Without considering the tax benefits at all, the appreciation and the amortization dramatically affect the “real” cost of owning a home.

Consider a \$250,000 that appreciates at 2% a year for the next seven years instead of paying \$2,000 a month in rent. In the example, the payment is less than the rent being paid even including the property tax and insurance.

Rent vs. Own

\$1,187.64 Net Cost of Housing	
Mortgage @ 4.50% for 30 years	\$245,472
Monthly Payment (P & I)	\$1,243.77
Monthly Tax & Insurance Escrow	\$416.67
Total Monthly Payment (PITI + MIP)	\$1,834.31
Less Monthly Principal Reduction	\$330.00
Less Monthly Appreciation	\$416.67
Plus Estimated Monthly Maintenance	\$100.00
Plus HOA fee	\$25.00
Net Cost of Housing	\$1,187.64
Monthly Rent for Comparison	\$2,000
Monthly Cost of Renting vs. Owning	\$812.36
Annual Cost of Renting vs Owning	\$9,748.27

Effect of Leverage

Estimated Equity after 7 Years		\$73,546
Down Payment	11.90%	\$8,750
Appreciation	44.80%	\$32,950
Amortization	43.30%	\$31,847

When you factor in the monthly principal reduction and appreciation and consider additional owner expenses like maintenance and possible homeowners association, the net cost of housing is considerably lower than the rent. In this example, reduced cost in the first year alone is more than the down payment required on a FHA loan.

Based on the assumptions stated, the down payment of \$8,750 could grow to \$73,546 in equity in seven years. Can you name another investment with this kind of potential that also provides you a place to live, enjoy, raise your family and share with your friends?

Use this [Rent vs. Own](#) to make projections using your own numbers and price range. We're available to answer any questions you have and to find out what it will take to own your own home.

Note: If this article generates additional questions or a need for additional information, the following button will allow you to ask your question(s), request additional information or make comments. It is not my intent to bug you with unwanted phone calls, emails, or text messages! It is my intent to allow you to benefit from my 35+ years real estate activity and to give you a buying experience beyond your expectations!

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