

Renting vs. Buying

How to make an educated decision based on the facts, not the myths

Every day consumers are inundated with visions of how home ownership represents the American Dream and why it is a great investment. Most people do not realize the real financial and practical advantages our residents experience every year when they decide to rent an apartment home at one of our **MANCO ABBOTT, INC.** communities. We have added this information on our website to educate you about the myths that exist about home ownership and how you can experience real financial gains and freedom through renting.

Much of the information presented here has been extracted from the *"Don't Buy the Myths – Renting Can Be A Smart Investment"* brochure created by the National Multi Housing Council and the National Apartment Association. For more detailed information, and related articles about the myths and realities, please visit www.nmhc.org or www.naahq.org.

The Myths

1. Purchasing a home will provide a huge tax break
2. Paying rent is throwing away money especially when a mortgage is less expensive
3. No more rent increases
4. Buying a home offers a great return on the investment
5. When the interest rates are low, buying is the smartest decision

The Advantages

Myth #1 - Purchasing a home will provide a huge tax break

The Reality – Tax advantages for many homeowners may not exist and in some cases may be nominal. Consider the following:

- If your mortgage interest and other itemized deductions do not add up to the standard deduction, you experience no tax advantage. The standard deduction in 2007 for a single individual is \$5350, for the head of household is \$7850, and for a married couple is \$10,700. As a renter you still receive the standard deduction and do not have to incur expenses such as mortgage interest and property taxes
- Even when your interest and other deductions meet the standard deduction amount, your tax break is often less than you think. For example consider a married couple with \$11,000 total deductions. The only advantage you would have over a renter who paid zero in interest

and property taxes is an extra \$300 in deductions. If you're in the 25% tax bracket, that \$300 extra in deductible interest is worth just \$75.

- Perceived tax advantages become negligible once you consider all of the additional expenses homeowners incur each year.
- Private Mortgage Insurance (PMI) – When you purchase a mortgage you are required to pay PMI to insure the loan for the lender, and this expense typically ranges from \$150 - \$200. The law allows for PMI to be charged until the borrower has paid off at least 20% of the house. The law also allows lenders to require this insurance until 50% equity has been established by high-risk borrowers that include those that have marginal credit, higher debt to earning ratios, and those who provide less proof of income during the approval process.
- Maintenance Expenses – A major advantage of renting includes no expenses. To maintain the high standard of quality at our communities, **MANCO ABBOTT, INC.** spends on average approximately \$900 per apartment home each year¹. As a homeowner you can expect to spend at least that much on an annual basis for necessary maintenance and repairs.
- Property taxes, homeowner's association dues, landscaping costs, gym memberships, pool memberships, upfront costs for home furnishings and appliances, and higher utility costs are additional expenses homeowners experience each year that renters will be able to avoid. These additional costs totaled will quickly surpass the amount of cash you receive from your "tax break."

Myth #2 - Paying rent is throwing away money especially when a mortgage is less expensive.

The Reality – There are great benefits to home ownership for most people, however there are certain situations when renting is financially beneficial. Additionally, many online "Rent vs. Buy" calculators that promote home ownership and show the financial advantages of buying versus renting are flawed and misleading. Consider the following:

- According to a report generated by Mark Obrinsky, NMHC Chief Economist, on January 25, 2005, "Calculating the full cost of ownership is complicated, and online calculators that sacrifice accuracy for ease-of-use mislead consumers and perpetuate the myths about homeownership."²
- Mark Obrinsky also found that calculators mistakenly assume everyone will receive a tax incentive from their home purchase. In fact, only half of all owners realize a tax advantage based upon itemizing their

deductions³. Many calculators also contain flaws that do not account for maintenance costs, insurance and taxes, and other homeownership costs – See *The Reality of Myth #1*.

- Advantages of homeownership may be realized by those who:
 1. Plan to stay put at least three years,
 2. Are prepared to deal with noisy neighbors and maintenance issues on their own,
 3. Have extra savings, and
 4. Understand the importance of managing their money – monitoring their expenses and income to ensure positive personal cash flow.³

Myth #3 - No more rent increases!

The Reality – It is true with a *fixed* mortgage rate your payment will stay constant, but you may experience increases in property taxes and insurance. While rent increases do occur, you may find they are less than the other rising costs of home ownership. Consider the following statistics:

- Between 1997 and 2001 annual property tax increases averaged 4-5% for a total increase of 18%.⁴
- Homeowners insurance rose 7.3% in 2003 and 3.8% in 2004. The average expenditure is expected to rise 2.5% in 2005 – the smallest rise in six years.
- In 2002 the average premium for homeowners insurance in California was \$527 versus \$164 for renters insurance.⁵

Myth #4 - Buying a home is a great investment.

The Reality – “Homeownership may not be the best place to get a strong return, especially if you look at the average home price appreciation of other assets. Putting all of your money in a house is like putting all your wealth in a single stock in the stock market. It’s a risky financial strategy.” Consider this:

- Over the 1990’s the Standard and Poor’s 500 gained 338%. During the same period the median price of a home rose 44%.⁶
- When you buy or sell a home with the assistance of an agent you immediately lose out and gain no return on your investment. Standard commission fees for a licensed real estate agent range between 2.4% and 3%. When a buyer’s agent and seller’s agent are both involved in the transaction, double that. Considering the average price of a home

in the Fresno area is \$325,000 that amount can range between \$7,800 and \$19,500. Some add you become "upside down" immediately.

Myth #5 - When the interest rates are low, buying is the smartest decision

The Reality – The housing market operates similarly to other industries in that supply and demand control the price.

- In some markets you may find the cost of housing begin to rise when interest rates fall. The result could be inflated housing costs during the period characterized as a "Sellers Market." Once the interest rates stabilize, the market could easily shift to a "Buyers Market" and some may find they purchased a home at an inflated price just to lock in an interest rate.⁷
- Additionally, to take advantage of the lowest interest rates you typically must secure an Adjusted Rate Mortgage (ARM) that requires you to refinance every 3-5 years. Each time you refinance you will also have to pay for home appraisal and inspection fees, and loan origination fees.⁸

The Advantages of Renting an *MANCO ABBOTT, INC.* Apartment Home:

When you make the choice to live at an *MANCO ABBOTT, INC.* community, you will not only experience the outstanding distinctions our apartment homes offer, you will also become accustomed to a lifestyle that grants you the freedom you deserve to enjoy life! Consider some of the following advantages our current resident's experience:

- **Convenient and Easy Lifestyle** - Many of our communities offer upgrades that some of our residents would not be able to experience in a single-family home, such as state-of-the-art fitness centers, free business services, locations near urban centers, shopping and entertainment, and planned social activities.
- **Work-Free Weekends** - Our residents are not responsible for caring for the yard, pool, home repairs, or the grill. Instead, our residents are able to enjoy more of their favorite things on the weekends and on their days away from the office.
- **Greater Financial Freedom** - As a resident at our community you will have a lower, total monthly bill for all housing costs than most homeowners. Take that extra cash and plan a much needed vacation, earn a second degree or new skill, pay off student loans or other high interest debts, or invest your money in higher yield investment

opportunities. Consider some of the types of monthly expenses for repairs and maintenance (labor and parts), and the operations of a single-family home you will be responsible for as a homeowner.

- **Plumbing** - Clogged toilets, water main repairs, water heater repairs, leaking valves, fittings, pipes, and faucets, clogged sink and bath drains, garbage disposal repairs, low water pressure, and toilet flapper repairs.
- **Roof Repairs** - Total replacements, patches, shingle replacements, wind and/or storm damage, and roof leaks.
- **Electrical** - Circuit breaker replacements, exterior lights, existing interior lighting, inactive outlets, short circuits and/or sparks, and smoke detector repair and maintenance..
- **HVAC** - Leaking condensation drain lines, filter changes, general repairs, and preventative maintenance (low refrigerant, coil cleanings, thermostat adjustments, rattling vents).
- **Keys and Locks** - Replacement keys, doorknob replacements, and sticky locks.
- **Driveway and Parking Lot Repairs** - Seal coating or necessary patches
- **Appliances** - Ice-maker water supply line and general repairs, dishwasher repairs, and washer/dryer repairs (where applicable).
- **Routine and Preventative Maintenance** - Weather stripping, energy conservation measures, pest control, and inspections.
- **Landscaping Costs** - Lawn service or lawn equipment, seed, fertilizer, plant life, drainage and irrigation, tree removal, and weed control.
- **Operating Costs** - Property taxes, higher utility costs, HOA dues, and higher insurance premiums.

Footnotes:

1. *This figure represents an amortized cost at Manco Abbott, Inc. Communities in Fresno, CA. It does NOT include turnover costs, landscaping costs, or common area maintenance expense. It does include labor and parts for interior repairs and maintenance only.*

2. "Rent vs. Buy Calculators: How Helpful are they?" www.nmhc.org, June 29, 2001

3. Liz Pulliam Weston – "Does buying a home always beat renting?" MSN Money, <http://moneycentral.msn.com/content/Banking/Homebuyingguide>, 7/6/04

4. NMHC tabulations of the U.S. Census Bureau's American Housing Survey for 1997 & 2001

5. Insurance Information Institute. Found at www.iii.org/media/facts/statsbyissue/homeowners/ on 5/19/05

6. NMHC Annual Report, 1/1/01 found at <http://www.nmhc.org> - Rent vs. Own tab – Article titled – "New Thinking about the Rent-Buy Decision" 5/19/05

7. "Triangle Home Sales Rise," *The Raleigh News and Observer*, June 9, 2005

8. "Don't buy the myths – Renting Can Be A Smart Investment", produced by the National Multi Housing Council and the National Apartment Association