

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 homebuying is a good INVESTMENT?

Buying a first home can be an intimidating process. The first step 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



Rents Increase Over Time

Over the past ten years, the cost of rental housing in San Francisco has gradually increased an average of 2% per year. In today's market a 2 bedroom apartment averages \$4,500 a month and in ten years you would pay accumulative rent equal to \$591,285

If you're not building wealth paying for your home you're paying for the landlord's property making him rich.

Rent Control has Limitations

Rent control does not guarantee a life time of subsidized rent, and when you're renting you fail to build up home ownership equity, much needed for your retirement years. As new buyers entered the market of rent controlled properties, renters have been evicted and lost their subsidized housing through no-fault causes like owners-move-in evictions or Ellis-Act.

Homeownership gives peace of Mind for you and your family!

Owning Can Lead to Tax Savings

None of the \$591,285 rent payments are returned to you, either through 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.

An Example of Ownership

You purchase a home that costs \$800,000. Your down payment is \$80,000 [plus closing costs- expenses incurred to actually process the transaction. You finance the balance with a 30-year fixed rate mortgage at 5 percent interest. Your monthly payments (not including utilities, maintenance , insurance , etc.) are:

Monthly Mortgage & Tax Payments

mortgage	\$3,865
property tax (@1.125% tax rate*)	\$750
Total Monthly Payment	\$4,615
tax savings per month (@ 25% income tax bracket)	

mortgage Interest tax deduction	\$745
tax deduction for property tax	\$188
total Monthly Tax Savings	\$932
Total Monthly Cost After Tax Savings	\$3,683

*property tax rates vary by city and county

Owning your home reduces your federal income tax bill by \$932 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 as well.

Buyers Usually Come Out Ahead

The table on the next panel considers four different price growth 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.

Annual Costs

	Homeowner	Renter
Total Annual Costs		
annual mortgage/rental payment	\$46,381	\$54,000
real estate taxes	\$9,000	
Tax Deductions/Equity Builders		
mortgage interest deduction	\$8,940	\$0
tax deduction for property tax	\$2,250	\$0
mortgage principal accumulation	\$10,623	\$0
Appreciation		
no growth	\$0	\$0
loss*	-\$8,000	\$0
below trend growth**	\$16,000	\$0
average growth***	\$32,000	
Annual Costs Less Equity Gains		\$54,000
No growth	\$33,569	
loss*	\$41,569	
below trend growth**	\$17,569	
average growth***	\$1,569	

- assumes a 1.0% annual depreciation
- • assumes a 2.0% annual appreciation
- • • assumes a 4.0% 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 and retirement plan. The CALIFORNIA ASSOCIATION OF REALTORS® estimates that for the last 20 years home value rose, on average, by 5.2% percent a year. That's a steady return on investment. Still, no investment is guaranteed. But of all investments this is the only one you can call MY HOME!

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A DREAM HOME IS GREAT, BUT THE RIGHT ONE IS BETTER - LET AN AGENT WHO KNOWS GUIDE YOU

As an example, let's look again at that \$800,000 home. Unlike your rental unit, your home usually appreciates over time. After ten years, assuming a 5.2% home appreciation rate*, your \$800,000 home will be worth \$1,328,151. Not only do you earn a rate of return on your original purchase price, you also get a return on any subsequent appreciation.

Average California home price appreciation from 1995 to 2015 was 5.2%

"Appreciating" Returns

Year	Price Growth	Home Values
1	5.2%	\$841,600
2	5.2%	\$885,363
3	5.2%	\$931,402
4	5.2%	\$979,835
5	5.2%	\$1,030,786
6	5.2%	\$1,084,387
7	5.2%	\$1,140,775
8	5.2%	\$1,200,096
9	5.2%	\$1,262,501
10	5.2%	\$1,328,151

Total 10 year Appreciation: \$528,151

Homeownership Builds Wealth for Households

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 returns' on your home.

We've already seen how your \$800,000 home could be worth \$1,328,151 in ten years. In addition, you are paying down the principal on your mortgage. Remember that \$720,000 you borrowed at 5.0% over 30 years? - that debt amount is decreasing every month and every year as you make payments.

Year	Home Price	Mortg.Debt	Net Worth
1	\$841,600	\$709,377	\$132,223
2	\$885,363	\$698,211	\$187,152
3	\$931,402	\$686,474	\$244,928
4	\$979,835	\$674,136	\$305,699
5	\$1,030,786	\$661,167	\$369,620
6	\$1,084,387	\$647,534	\$436,853
7	\$1,140,775	\$633,204	\$507,571
8	\$1,200,096	\$618,141	\$581,955
9	\$1,262,501	\$602,307	\$660,194
10	\$1,328,151	\$585,663	\$742,488

After the first year, you now only owe \$709,377 on a home that is worth \$841,600. As home that is worth \$841,600. 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.

Why Buy Now?

You may wonder whether it is worthwhile to wait to purchase your home. Prices are not the only factor that should drive your decision. Currently, interest rates are near generational lows that greatly improve the affordability of homes. Further on the annual cost table you can see that the possible tax savings of owning a home can lead to a lower cost for the buyer, not the renter. 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 ASSOCIATION 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 home ownership. Start the process now!

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 fact 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: the accumulation of home equity, financial and tax benefits and the pride of owning a place of their own.

They also had to take that first step and decide: "I'm ready to be a homeowner."

RE/MAX FUTURA Sales Associates are trusted advisors who are committed to you and possess the knowledge and experience to help you navigate today's complex real estate market

Give us a call today!



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