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ABSTRACT

This booklet offers guidelines by which a person can make an informed decision about whether buying or renting a house is the best individual alternative. Advantages and disadvantages of both buying and renting are listed. Cost considerations are discussed and compared along with such considerations as selection of the time to buy and estimation of investment value. (HD)

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EVALUATING THE BUY OR RENT HOUSING DECISION

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U.S. DEPARTMENT OF HEALTH,
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EVALUATING THE BUY OR RENT HOUSING DECISION

Each year in the United States about 42.6 million persons change residences. These moves and new family formations, as young adults get married, create demand for shelter. The necessity of obtaining shelter means that each year many persons are faced with the decision of whether to buy or rent their residence.

The decision to buy or rent can be made from a psychic value standpoint, from an investment standpoint or a combination of the two standpoints. Strong psychic preferences for buying or renting do not necessarily preclude making a sound decision. However, from an investment standpoint, factors like the total cost of housing, the financial status of the buyer, the expected length of time in the new area and the anticipated change in housing values must be considered to make a wise investment decision. This study offers guidelines by which a person can make an informed decision about whether buying or renting is the best individual alternative.

Individual Preferences

Both renting and buying have advantages and disadvantages. Today the majority of families in the United States own their home. Studies have indicated that family size, age, income and prior homeownership have had a positive effect upon home purchases. Large families are more likely to want the larger dwelling size that typically comes with home ownership, and high incomes provide the means for purchase. A former homeowner would be more likely to have saved the money required for a down payment.

To decide whether renting or buying is the better course, the individual or family should consider: place in the life cycle (young married, retired, etc.), family size, mobility, occupation, income stability, tax situation, housing market in the area and personal preferences.

There are many compelling reasons for the preference to buy:

- To live in a home designed and built to the buyer's specifications on a plot of land chosen by the buyer.
- To develop a feeling of belonging and civic pride.
- To have peace of mind from knowing that through mortgage payments, equity and security are growing. Furthermore, the "forced" savings in the form of the principal payments improve the buyer's credit standing while creating a financial asset.
- To convert interest and property tax payments to income tax deductions.
- To obtain an appreciating asset to act as a hedge against inflation.
- To feel independent of a landlord or to have the opportunity to be creative in altering or remodeling the structure.
- When future housing needs can be realistically estimated and the buyer expects to be in the same location for a number of years.
- When adequate funds for the down payment and closing costs are available and an adequate income to pay the mortgage and other monthly housing expenses are expected to be earned.
- To obtain a larger space for children to safely play.
- When a "good" buy becomes available and the renter wishes to take advantage of it.
- To increase one's privacy and quiet enjoyment of his home.
- To satisfy the traditional desire to own one's home — fulfill the American Dream.

There are two important advantages to renting — greater mobility and minimum responsibility. Also renting may be preferable:

- For the convenience that an apartment offers to place of work or to public transportation facilities.
- In anticipation of a move. A home purchase would generally be a poor investment because of the loss of income on down payment funds, closing costs and other expenses that would be incurred when the house was sold.
- To study the new community before buying a home.
- For relief from the responsibility for maintenance, repairs and landscaping.
- When better housing can be rented than the individual or family could afford to buy. For example, some apartments provide tennis courts, swimming pools and other luxuries.
- When there is not enough money for the down payment and closing costs and/or income will not support the monthly shelter expenses for the type of home preferred.
- When a person desires the companionship or social activity apartment dwelling often offers.
- When one's life cycle is such that it is not necessary to maintain a larger home.
- When the supply of adequate and reasonably priced housing is so low one is forced to rent.
- When the requirements for qualifying for home financing are too stringent.
- When one is fearful of the complexities involved in the home purchasing process.

Housing requirements and preferences vary widely from individual to individual, from family to family and from one time to another. Because of the personal preference factor, it is not possible to make a general statement as to when it is "best" to rent or buy. If an individual or family decides to purchase, the second aspect of the decision is how much they are able and willing to spend.

The Cost Consideration

According to a recent *Wall Street Journal* article, "Out In the Cold — Many House Hunters Find New Homes Are Beyond Their Means," most families are having to stretch budgets to be able to make the first-time home purchase. What has been happening is that the prices of homes have been escalating faster than family incomes. The prices of new homes have skyrocketed.

The median price of a new home today is \$39,000, whereas 10 years ago it was \$20,000 and 20 years ago it was \$13,400. According to a survey by Investors Mortgage Insurance Co. in Boston, of nearly 16 million couples in the age group 25 to 34, the median family income is about \$14,800. With interest rates at 8.5 percent, that median family income would qualify a buyer for an 80-percent, 30-year conventional mortgage on a \$38,125 home. With rates at 9.5 percent, the same buyer could afford to pay only \$34,687, or \$4,313 less than the current median new home price.

The National Association of REALTORS[®] reported in May 1976 in the *REALTOR* that prices of existing homes in March 1976 increased 8.6 percent over the sales prices of similar existing homes in March 1975. At that rate, the price of a home would double in slightly over eight years. Recently, there has been a moderating trend in the price increases of existing homes on a year-to-year basis. The western region of the nation, including Texas, is the only area where prices are still advancing from year to year at the double digit pace. A March 1975 to March 1976 increase of 15.6 percent brought the median price of an existing home in the western region to \$44,160. The rate of increase in the north central region was 9.5 percent to \$31,770; northeast, 7.0 percent to \$41,060; and south, 5.9 percent to \$36,100.

One might assume that the trend of rising housing prices is likely to continue roughly in proportion to the money incomes of families and to inflation. Unfortunately, for a dozen years or so now,

housing costs generally have been climbing faster than the overall price level and family incomes.

The purchase price alone of the house does not adequately reflect the cost of housing. While the home-building industry is concerned primarily with the initial purchase price of a home, the monthly cost of home ownership is a more meaningful measure of an individual's ability to afford a home.

The other "real" monthly costs of owning a home would include: the interest payment on the mortgage, maintenance and repairs, property taxes and insurance, income foregone on the downpayment and settlement costs invested in the home and other miscellaneous recurring shelter expenses. Other expenses might include pool maintenance or a recreational assessment paid to a neighborhood association. For the homeowner there will be a "monthly income tax savings" because the interest portion of the mortgage payment and the property taxes are deductible from federal and state income taxes.

Two studies that have analyzed the total costs of home ownership have concluded the initial purchase price of a home amounts to only about 25 percent of the total housing cost over the mortgage period.³ Nearly 75 percent of the total housing cost is related to interest payments, property taxes and insurance, maintenance and repair and utilities.

Interest is the largest single component of the housing expense. According to a study by Lozano, interest accounted for 40 percent of the total housing cost. A study by Thompson indicated that interest contributed 33.5 percent to the total cost.

Between 1955 and 1975, mortgage interest rates climbed from 4.8 percent to 9.0 percent. According to John C. Hart, president of the National Association of Home Builders, "With every one percent rise in borrowing costs, eight percent of potential buyers are eliminated — or about 8 of 10 over a 10-year period."⁴

Property taxes and insurance add nearly as much to the total housing cost over the mortgage period as the initial purchase price. Lozano attributed 24 percent of the total housing cost to property taxes and insurance. During 1955 to 1975, real estate taxes soared 341 percent and insurance premiums increased 321 percent.

Maintenance and repair costs are difficult to estimate. They vary because of the age of the house, the type of construction and external factors. Rough estimates usually amount to 3/4 to 1 percent of the value of the property per year. A \$300-per-year maintenance and repair bill would be reasonable for the median-price home today. Maintenance and repair costs over the mortgage period might approximate seven percent of the total housing costs, or about one-third as much as property taxes and insurance. Maintenance and repair expenses have climbed 269 percent from 1955 to 1976.⁵

Utility costs have increased rapidly since 1970, with the rapid increase occurring between 1974 and 1975 — a rate jump of approximately 30 percent for the nation as a whole.⁷ Utilities increased 199 percent during the 1955-1975 period (about 10 percent per year). In fact, in the early 1960's there were some decreases in utility rates because of the ability to mass produce at a lower unit cost. Lozano and Thompson indicated utilities accounted for about 14 percent of the total housing cost in the 1972 and 1973 studies. A much bleaker picture is forecast. It is not uncommon to hear someone comment that our utility bills will be equaling our mortgage payments. If utility rates continue jumping at 30 percent per year, utility bills will be doubling every two-and-one-half years. Total housing costs will increase sharply as utility rates escalate, and utility costs will become a larger component of the total housing cost.

With these statistics, it might be reasonable to assume a typical family earning \$16,000 per year in Texas would be willing and able to purchase a \$40,000 home. Conventional rules of thumb dictate a buyer ordinarily looks for a home within a market price of 2.5 times his annual income. However, the amount an individual spends on a home will depend largely on what he wants in a home and what his other wants and needs are.

The typical family purchasing a \$40,000 home today in Texas could finance the home for 30 years at

nine percent interest with \$4,000 down and conventional mortgage financing. With FHA or VA financing, it is possible to obtain an 8.5 or 8.75 percent loan, with zero down payment on VA loans. However, mortgage interest rates vary frequently by season and location and by the state of economy and mortgage money market.

At the closing or settlement, both the buyer and the seller have to pay certain charges incidental to transferring title to real estate and obtaining the mortgage loan. In Texas, on a \$40,000 home with \$4,000 down and a nine percent mortgage, the buyer, on the average, might pay as much as \$1,300 in settlement or closing costs. The exact amount varies because of terms and conditions of financing and agreements between the buyer and seller as to who will pay certain items.

A typical list of settlement costs paid by the buyer on a \$40,000 home might include:

- \$ 360 Points (1% of loan amount)
- 260 Property Insurance Premium (1st year)
- 250 Mortgage Title Insurance (mortgagee)
- 135 Per Diem Interest (assuming 15 days)
- 95 Escrow Items (property taxes and insurance)
- 85 Appraisal Fee
- 80 Attorney's Fees (1/2)
- 15 Credit Report
- 13 Recording Fees
- 5 Tax Certificate
- 2 Amortization Schedule

\$1300

When the owner decides to move, he becomes the seller and is required to pay the selling commission and closing costs associated with selling the home. In Texas, a six percent selling commission is typical on homes. This means the seller pays six percent of the sales price to a real estate broker for marketing his home. If the \$40,000 home purchased today appreciated at the rate of eight percent per year and was sold five years later, it should be worth approximately \$58,773. Therefore, the seller would pay a \$3,526 commission if the rate is six percent. Furthermore, the closing costs for the seller might commonly run about \$1,400. These closing costs paid by the seller might include:

- \$1080 Points (3% of new loan amount)
- 230 Owner's Title Insurance Policy
- 90 Fees, Termite Inspection and Document Preparation

\$1400

Settlement costs for the owner/seller in this example exclude provisions for prepayment of mortgage penalties and private mortgage insurance premiums which might also be incurred.

In addition to considering the down payment and settlement costs, the prospective home purchaser must decide how much he can afford to spend each month for mortgage payments and other housing expenses.

On a \$40,000 home with a \$36,000 mortgage financed at nine percent for 30 years, a family would have a monthly mortgage payment of \$289.67, principal and interest only. Monthly real estate taxes could add another \$70, and the monthly property insurance could add another \$22. Therefore, the estimated monthly PITI (Principal, Interest, Taxes, and Insurance) would total \$381.67.

The other "real" monthly costs of owning a home would include: maintenance and repairs, utilities, income foregone on the downpayment invested in the home and other recurring shelter expenses associated with owning a particular home.

Maintenance and repair expenditures are monthly costs the homeowner will routinely incur as

upkeep. Major capital improvements to the house and grounds would be excluded. On a \$40,000 home in Texas, a \$300-a-year maintenance and repair bill would be reasonable. This would add \$25 a month to the total cost of home ownership.

On a 1,800-square-foot, insulated, brick, single-family home in Texas, with current utility rates, a family could expect to spend an average of \$90 per month on utilities.

In summary, the typical monthly costs of home ownership on a \$40,000 home with a \$36,000 mortgage at nine percent for 30 years in Texas might be as follows:

\$289.67	Mortgage Payment (P + I)
70.00	Property Taxes
22.00	Fire and Hazard Insurance
25.00	Maintenance and Repairs
90.00	Utilities Excluding Telephone
<u>\$496.67</u>	Total Monthly Cost

Although monthly costs of home ownership on this house are estimated to be \$496.67, there will be a "monthly income tax savings" because the interest portion of the mortgage payment and the property taxes are deductible from federal income taxes. The net tax savings will be the difference in income tax that a family would pay as renters rather than as buyers. The \$496.67 monthly cost would be reduced by the average monthly tax savings from home ownership.

On the other hand, the home purchaser has foregone interest he could have been earning on the initial outlays of down payment and settlement costs. Instead of putting his money into a home; a buyer could have invested in government securities, corporate bonds, a savings account or numerous other alternatives. There is some safe, reliable rate the buyer could be earning on an alternative investment. This "opportunity cost" is not included in the \$496.67 monthly expense.

After a prospective home purchaser has evaluated his personal preferences and analyzed his financial situation to see if he can afford home ownership, he must consider the home purchase decision from the standpoint of a financial investment.

Selecting the Time to Buy

In order to answer the question, "When is the time to buy?" a buy or rent computer program was written to analyze the case of the individual described above. From an investment standpoint only, the program can tell whether an individual would be better off financially by renting or buying. It does not take into consideration the personal preferences of the individual or the subjective aspects of ownership versus renting. Furthermore, the program assumes the individual can afford to incur the costs of owning, and therefore, can choose between buying or renting.

Exhibit I presents the input data and the results of the Buy or Rent Analysis. The number of dependents (input item 13) is programmed into the analysis so the computer can select the proper federal income tax liability from the 1975 tax tables built into the program.

Item 4, "Federal Income Taxes With Real Estate Deductions," of the buy or rent program estimates the prospective buyer's federal income tax liability assuming he buys the house. Therefore, real estate deductions, mortgage interest and property taxes are included. Deductions for items other than real estate, such as charitable contributions, medical and dental expenses and other non-real estate itemized expenses are estimated by the computer according to national federal tax deduction guidelines published by Sylvia Porter. An optional entry (input item 19) allows non-real estate deductions to be entered directly if the prospective buyer knows approximately his annual deductions for these items.

State income tax advantages are not considered in the analysis since Texas does not have a state income tax. In states with a state income tax, there would be additional net tax savings for the buyer.

EXHIBIT I BUY OR RENT ANALYSIS

BUY OR RENT ANALYSIS
PREPARED BY TEXAS REAL ESTATE RESEARCH
CENTER
FOR A TYPICAL TEXAS FAMILY

Important Note: This analysis was based on past trends and conditions. There is no guarantee, either express or implied, that these conditions will continue or that there will be future profits realized from any resale.

OUTPUT RUN NO. 1

Recapitulation of Input Data

1. Purchase price (\$ amount)	\$40,000.00
2. Down payment (\$ amount)	4,000.00
3. Mortgage interest rate (%)	9.00
4. Mortgage term (length of loan in years)	30.00
5. Mortgage insurance premium, monthly (\$) amount, if any	0.00
6. Settlement costs, paid by buyer (\$)	1,300.00
7. Monthly real estate taxes (\$)	70.00
8. Monthly property insurance (\$)	22.00
9. Monthly maintenance and repairs (\$)	25.00
10. Monthly utilities excluding telephone (\$)	90.00
11. Other monthly shelter expenses (\$)	0.00
12. Annual income (\$)	16,000.00
13. Number of dependents (1 if unmarried)	3.00
14. Projection of period (years planning to own house)	5.00
15. Annual appreciation rate (change per year in purchase price)	8.00
16. Selling commission (% of end of period selling price paid by seller)	6.00
17. Other selling expenses (\$)	1,400.00
18. Interest rate earned on purchase outlay if invested (%)	7.00
19. Optional - non-real estate tax deductions (\$)	0.00
20. Optional - comparable shelter monthly rent including utilities (\$)	400.00

1. Terms of Purchase and Financing

Sale price of unit	\$40,000.00
Mortgage:	
Amount borrowed (\$)	36,000.00
Interest rate (%)	9.00
Term (years)	30.00
Monthly debt service:	
Principal and int. (\$)	289.67
Mortgage insurance (\$)	0.00
Total	289.67
Purchase outlay:	
Down payment (\$)	4,000.00
(percent of sale price - .10)	
Settlement costs (\$)	1,300.00
(percent of sale price - .03)	
Total	5,300.00

2. Monthly Cost to Own

Monthly debt service		
Principal and int. (\$)	289.67	
Mortgage insurance (\$)	0.00	
Total debt service	289.67	
Other monthly costs:		
Real estate taxes (\$)	70.00	
Property insurance (\$)	22.00	
Maintenance and repairs (\$)	25.00	
Utilities (\$)	90.00	
Other shelter expenses (\$)	0.00	
Total other costs	207.00	
Estimated monthly costs:		
Debt service (\$)	289.67	
Other costs (\$)	207.00	
Gross monthly costs	496.67	

**EXHIBIT I
BUY OR RENT ANALYSIS
(continued)**

**3. Federal Income Taxes
Without Real Estate Deductions (Rent)**

Annual income	16,000.00
Less: Deductions (standard) (-)	2,560.00
Personal exemptions (-)	2,250.00
Taxable income	11,190.00
Federal tax liability:	
Annually	1,991.80
Monthly	165.98

**4. Federal Income Taxes
With Real Estate Deductions (Buy)**

Annual income	16,000.00
Less: Deductions	
Real Estate taxes (-)	840.00
Mortgage interest (-)	3,230.03
Non-real estate (estimated) (-)	2,100.00
Less: Personal exemptions (-)	2,250.00
Taxable income	7,579.97
Federal tax liability:	
Annually	1,210.19
Monthly	100.85

5. Monthly Federal Tax Savings

	Tax liability*
Without homeownership deductions - rent (See 3)	165.98
With homeownership deductions - buy (See 4) (-)	100.85
Estimated monthly tax savings buying	65.13

*Based on 1975 rates

6. Net Monthly Shelter Outlay to Own:

Gross monthly costs (See 2)	496.67
Less: monthly tax savings (See 5) (-)	65.13
Net monthly shelter outlay	431.53

**7. Net Sales Proceeds
(After Owning 5 Years:)**

Market value of house (8% app. per yr.)	58,773.08
Less: Sale commission (6%) (-)	3,526.38
Less: Mortgage balance (-)	34,516.76
Less: Other selling costs (-)	1,408.00
Net sales proceeds	19,329.93

8. Additional Savings Needed When Renting:

Net sales proceeds (See 7)	19,329.93
Less: Purchase outlay compounded (7) (-)	7,433.51
Net advantage of homeownership	11,896.42

9. Balance Available for Monthly Rent:

Net shelter outlay (See 6)	431.53
Less: Additional savings needed if renting (See 8) (-)	166.19
Balance available for monthly rent	265.34

Additional savings needed each month when renting to accumulate 11,896.42 in 5 years: 166.19

10. Assuming a shelter comparable to the house being considered can be rented for 400.00 per month, a typical Texas family would benefit by 134.66 per month from buying.

The buy or rent analysis indicated that you should buy.

Source: Computer output from data furnished by the authors.

Most of the items of output (1-10) are self-explanatory except item 8, "Additional Savings Needed When Renting." If the individual does not buy a house, he presumably has available the amount of money that would have been spent on the down payment and settlement costs. In this case, with the \$4,000 down payment and the \$1,300 settlement costs, it was assumed this money could have been invested in an alternative earning seven percent per annum over the five-year projected period of owning the home. The difference between the "net sales proceeds" and this "purchase outlay compounded" reflects the "net advantage of home ownership."

The computer calculates the additional savings required by the renter each month in order to equal the net advantages of home ownership. In this case, the "sinking fund amount" is accumulated monthly for five years at seven percent. This is the additional amount a renter would have to save each month in order to be as well off as a buyer who purchased a \$40,000 home that appreciated at eight percent per year and lived in it five years.

In this case it can be concluded that "a typical Texas family," given two important assumptions, (1) the market value of the home appreciated eight percent per year, and (2) they hold the home for five years, would be better off financially by \$134.66 per month through buying if a "comparable" rental unit, including utilities, would cost \$400 per month.

Conclusions

Most of the 20 input items contained in the Buy or Rent Analysis can be exactly determined or estimated reasonably well for a specific case. However, some items are only the prospective buyer's best guess as to future conditions. Every item of input except the "years planning to own the home" and the "annual percent of appreciation in the purchase price" can be forecast with acceptable precision from the data available at the time of the purchase decision. Unfortunately, the projection period and annual appreciation rate probably have the most impact on the buy or rent decision from an investment standpoint.

If the buyer owns a house for a short period of time, a higher rate of appreciation is needed to offset his settlement costs and selling expenses. In fact, after running this particular case several times on the computer and varying the appreciation rate and projection period, some rules of thumb for buying or renting were discernible. They are shown in Exhibit II which begins on page 10.

Figure 1 of Exhibit II demonstrates the relationship between the net monthly dollar benefit from buying, the annual appreciation rate, and the holding period (years planning to own the home). The solid "break-even" line represents an indifference between renting and buying, assuming comparable rental including utilities is available at \$400 per month. For example, given a 10 percent annual appreciation rate, a buyer would break even (be as well off either buying or renting) if he purchased a home and lived in it for 19 months. If the buyer continued living in the home for five years, then he would benefit from buying about \$200 per month for five years if the home appreciated at an annual rate of 10 percent.

The dashed (— — —) and dotted (- - -) break-even lines in Figure 1 represent the break-even lines if the comparable rent available is either \$350 (— — —) or \$450 per month (- - -).

Figure 2 summarizes graphically the data presented in Figure 1. The curves in Figure 2 show that the higher the annual appreciation rate the shorter the holding period necessary to breakeven. The three curves, representing comparable monthly rent of \$350, \$400, and \$450 per month, point out that the more expensive renting is (\$450 vs. \$350 per month), the sooner a person breaks even from buying. For example, at a six percent annual appreciation rate, a purchaser would break even in about 24 months if comparable rent were \$450 per month; at a rental of \$350 per month, the breakeven holding period would be about 49 months.

Tables 2-4 present the results obtained from running a similar analysis for homes selling in the \$25,000 to \$70,000 price range. The home prices and other corresponding data selected for these cases were chosen to represent the range of purchasing alternatives that might be available to the first-time

home purchaser in the age group of 25 to 34. The first-time home purchaser lacks the experience of previous home ownership and must make the buy or rent decision as his family and income expand.

Table 2 presents the break-even holding periods for home prices from \$25,000-\$70,000 for annual appreciation rates of four percent to 24 percent assuming that the comparable monthly rent available is \$50 more than one percent of the home price, and Table 4 assumes rent is \$50 less than one percent of the home price. With a 14 percent annual appreciation or greater, a \pm \$50 variation in comparable monthly rent does not significantly affect the break-even holding period. For example, the break-even holding period on a \$25,000 home appreciating at 14 percent per year is about 17 months if comparable rent is \$200 per month (Table 4), about 14 months when rent is \$250 (Table 2), and about 12 months for \$300 per month rent (Table 3). A narrow break-even range exists for all home prices for a 14 percent or greater annual appreciation. In fact, on a \$70,000 home with comparable rent varying from \$650 to \$750 per month the break-even range with 14 percent annual appreciation is 42-10 months. Conversely, when the annual appreciation rate is lower than 6 percent, the break-even holding period can vary considerably with changes in comparable rent. For example, on a \$30,000 home with comparable rent varying from \$250 to \$350 per month the break-even range with six percent annual appreciation is 69 and 24 months respectively. On less expensive homes with low appreciation rates four percent or less, the break-even holding period is so long as to justify renting unless the prospective purchaser can anticipate being in the home for several years.

A careful comparison of the holding periods in Tables 2-4 indicates the more expensive the home (\$70,000 as compared to \$25,000), the sooner the break-even point is reached. For example, at a 12 percent annual appreciation rate, a purchaser breaks even on a \$70,000 home in about 13 months as compared to about 16 months on a \$25,000 home. With an eight percent annual appreciation rate, the break-even point is approximately 20 months on a \$70,000 home and about 27 months on a \$25,000 home (Table 2).

In summary, making a home purchase decision based solely upon investment considerations can lead to an unwise decision if the assumptions are inaccurate. Because of a decline in general economic conditions, decay of the neighborhood, or other reasons, the prices of specific homes may depreciate. A prospective buyer must remember that over time his personal preference factors are very important. Fortunately, most homeowners can enjoy living in a sound investment.

EXHIBIT II

A \$40,000 Home

Table I
Recapitulation of Input Data

1. Purchase price (\$ amount)	\$40,000.00
2. Down payment (\$ amount)	4,000.00
3. Mortgage interest rate (%)	9.00
4. Mortgage term (length of loan in years)	30.00
5. Mortgage insurance premium, monthly (\$) amount, if any	0.00
6. Settlement costs paid by buyer (\$)	1,300.00
7. Monthly real estate taxes (\$)	70.00
8. Monthly property insurance (\$)	22.00
9. Monthly maintenance and repairs (\$)	25.00
10. Monthly utilities excluding telephone (\$)	90.00
11. Other monthly shelter expenses (\$)	0.00
12. Annual income (\$)	16,000.00
13. Number of dependents (1 if unmarried)	3.00
*14. Projection period (years planning to own house)	
**15. Annual appreciation rate (change per year in purchase price)	
16. Selling commission (% of end of period selling price paid by seller)	6.00
17. Other selling expenses (\$)	1,400.00
18. Interest rate earned on purchase outlay if invested (%)	7.00
19. Optional - non-real estate tax deductions (\$)	0.00
***20. Optional - comparable shelter monthly rent including utilities (\$)	

*Projection period was varied from six months to seven years.
 **Annual appreciation rate was varied from 4% to 24%.
 ***Comparable monthly rent was either \$350, \$400, or \$450.

Figures 1 and 2 summarize the results obtained by running the buy-rent computer program several times for a \$40,000 home and varying the projection period and annual appreciation rate. Figure 1 shows the dollar advantage (+) or the disadvantage (-) from buying. The solid, dashed and dotted lines represent break-even situations in which neither buying nor renting is favored. The solid break-even line assumes comparable rent to be \$400 per month, the dashed \$350 and the dotted \$450. All points on the curves below the break-even lines represent situations where the person would be better off financially from renting, and all points above the break-even lines represent a financial advantage from buying.

Figure 2 contains three break-even holding period curves, one for each assumption as to a comparable monthly rent. These \$450, \$400, and \$350 curves were plotted from the break-even points in Figure 1. Figure 2 demonstrates that the less expensive comparable rent is, the longer it takes to break even from buying. For example, the break-even holding period for an eight percent annual appreciation rate on a \$40,000 home is about 30 months when comparable rent is \$350 per month, about 23 months when rent is \$400, and about 19 months for \$450 per month rent.

FIGURE 1
MONTHLY DOLLAR BENEFIT
FROM BUYING A \$40,000 HOME

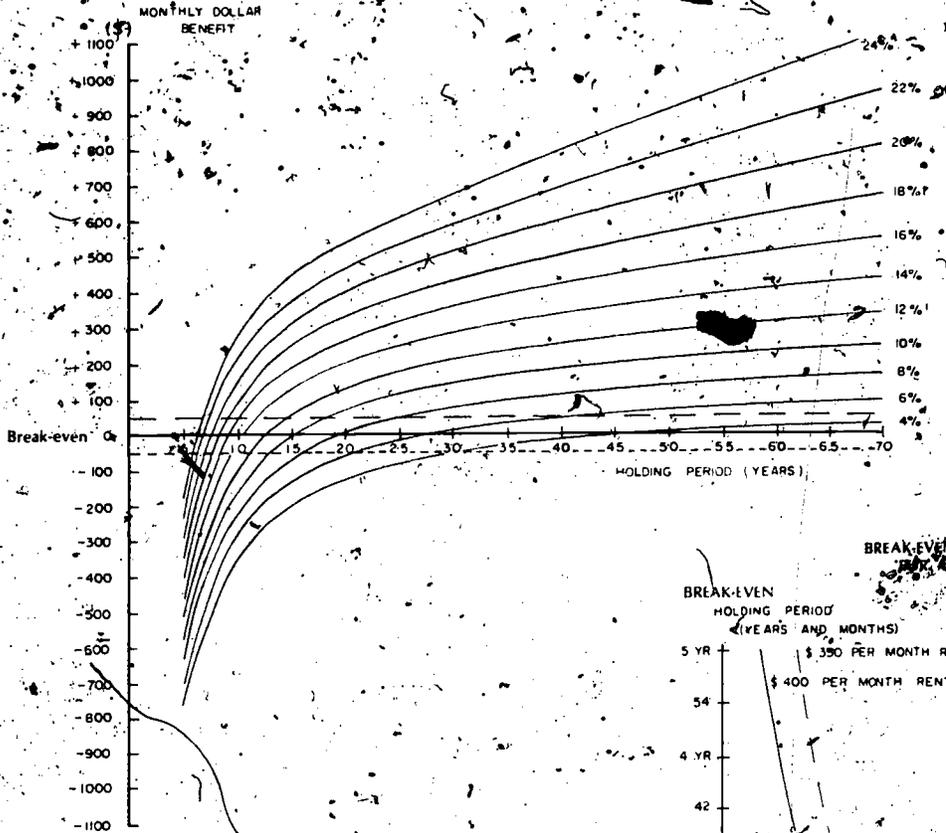
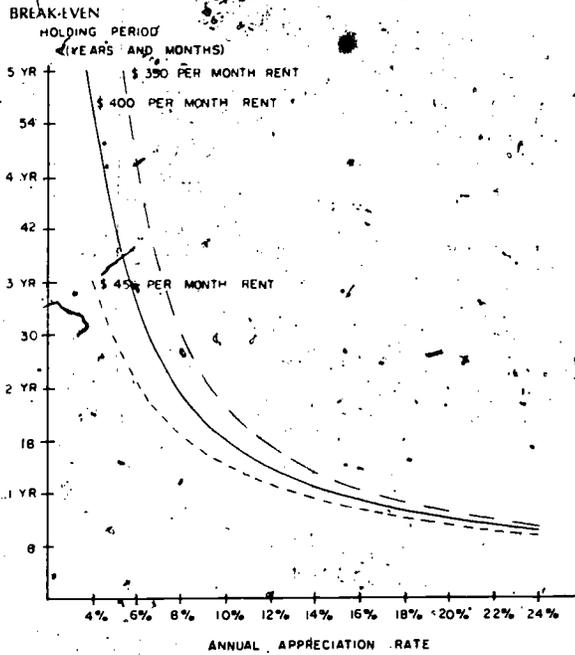


FIGURE 2
BREAK-EVEN HOLDING PERIOD
FOR A \$40,000 HOME



Note: These graphs are based on the data furnished by the author and the assumptions built in to the BUY-RENT computer program. There is no guarantee either expressed or implied that these benefits will be realized. This information is provided only as a general rule-of-thumb to aid the prospective home purchaser with the buy or rent decision.

Table 2
BUY OR RENT BREAK-EVEN HOLDING PERIOD IN MONTHS
COMPARABLE MONTHLY RENT IS ONE PERCENT
OF THE HOME PURCHASE PRICE

ANNUAL APPRECIATION PERCENT	HOME PURCHASE PRICE							
	25,000	30,000	35,000	40,000	45,000	50,000	60,000	70,000
4	84	69	63	59	57	48	43	38
6	42	35	34	33	31	29	28	26
8	27	25	24	23	22	21	21	20
10	20	19	19	19	17	17	16	16
12	16	16	15	15	14	14	14	13
14	14	14	13	12	12	12	12	11
16	12	11	11	11	11	11	10	10
18	11	10	10	10	10	9	9	9
20	10	9	9	9	8	8	8	8
22	8	8	8	8	8	8	8	7
24	7	7	7	7	6	6	6	6

Table 3
BUY OR RENT BREAK-EVEN HOLDING PERIOD IN MONTHS
COMPARABLE MONTHLY RENT IS ONE PERCENT
OF THE HOME PURCHASE PRICE PLUS \$50

ANNUAL APPRECIATION PERCENT	HOME PURCHASE PRICE							
	25,000	30,000	35,000	40,000	45,000	50,000	60,000	70,000
4	34	34	34	34	33	33	32	32
6	24	24	24	24	24	24	23	22
8	19	19	19	19	19	19	18	18
10	16	16	16	16	16	16	15	15
12	13	13	13	13	13	13	13	12
14	12	12	11	11	11	11	11	10
16	11	10	10	10	10	10	9	9
18	9	9	9	9	9	8	8	8
20	8	8	8	8	8	8	8	8
22	7	7	7	7	7	7	7	7
24	7	7	7	7	6	6	6	6

Table 4
BUY OR RENT BREAK-EVEN HOLDING PERIOD IN MONTHS
COMPARABLE MONTHLY RENT IS ONE PERCENT
OF THE HOME PURCHASE PRICE LESS \$50

ANNUAL APPRECIATION PERCENT	HOME PURCHASE PRICE							
	25,000	30,000	35,000	40,000	45,000	50,000	60,000	70,000
4	84	84	84	84	84	83	82	81
6	84	69	58	49	47	38	34	34
8	44	34	31	30	28	27	24	23
10	27	26	23	22	21	20	18	17
12	21	19	17	17	16	16	15	14
14	17	16	14	14	14	13	13	12
16	14	13	13	12	12	12	11	11
18	12	12	11	11	11	10	9	9
20	11	10	9	9	9	9	8	8
22	9	9	9	9	8	8	8	8
24	9	9	8	8	8	8	7	7

Source: These tables were developed from data furnished by the author and run through the BUY-RENT computer program.