



WHEN SHOULD YOU STOP RENTING & BUY YOUR 1ST HOME?

*THIS CHOICE OFTEN COMES
DOWN TO A FINANCIAL
DECISION: CAN YOU AFFORD
WHAT YOU WANT? BUT THAT'S
NOT THE WHOLE STORY. THERE
ARE MORE THINGS TO THINK
ABOUT WHEN TRYING TO DECIDE
IF IT'S TIME TO TAKE YOUR FIRST
REAL ESTATE PLUNGE.*

Cost-Benefit Analysis is the term for figuring out if something is worthwhile doing or not. When you analyze a situation and decide that the benefits are greater than the cost, then you may want to go forward. Conversely, if the cost exceeds the benefits, you may decide to wait.

Sometimes when you weigh the benefits against the cost, the benefits are higher, but not high enough. In that case, you might want to increase the benefits or lower the cost before taking

action. These are exactly the thoughts you should be having as you plan to buy your first home.

To help you weigh the benefits and costs of buying vs. renting, this report offers key elements to think through, including evaluating the monthly payments correctly, estimating home ownership costs, weighing location against price, evaluating purpose and home investment strategy, and improving credit and interest rate to decrease payments.

The most important factor when thinking about buying is to not “panic buy.” Don’t jump in just because interest rates *might* rise or prices *might* rise. Buy when you are ready and don’t let the market dictate your timing.

1. COSTS & BENEFITS OF RENTING

What are the benefits of renting?

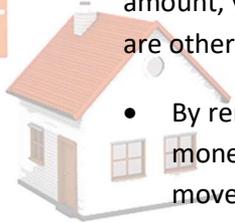
- One benefit is living in a property without having to spend great chunks of money to replace the roof or fix the plumbing.
- Another benefit is that you may be able to rent a type of home or in a location that you could never afford to buy.
- You have no stress or worry about maintenance. That’s the landlord’s job.
- You can pick up and move without wondering if you can sell your house.
- If your income drops, you can rent somewhere less expensive. It’s a pain to move, but you won’t face a foreclosure or fire sale.

- If you are late with a payment, you can discuss it with the landlord.
- You probably won't get a serious ding on your credit if you're a month late.
- In many places, renting is the only option because there isn't enough housing for sale, or the prices are beyond reach for the average mortal.

What are the costs of renting?

The landlord charges you X amount and as long as you pay that amount, you get to live in that property. The cost is X. But there are other costs:

- By renting, you lose the opportunity to build equity (the money you gain if you sell the property). So when you move, you move with no money in your pocket.
- You lose the opportunity to pay off the house and eventually own it outright.
- You lose the opportunity to put down permanent roots, do what you like to the property, and raise capital by getting a second mortgage or home equity loan.



COSTS & BENEFITS OF OWNING

What are the benefits of owning?

- Build equity through rising values and making payments.
- Pay off the home and eventually have the security of owning outright.
- Be able to increase your wealth...by selling and profiting, by renting it to someone else, or by getting a home equity line to use the money in some other way.

- Put down deep roots in the house and community.
- Do what you want to the house...paint it orange and pink if you want (as long as you don't live in a Planned Community or Condominium).

What are the costs of owning?

- Monthly fixed and variable maintenance costs are significantly higher than renting.
- Interest on your mortgage loan (which may be a tax deduction, so that may actually be a benefit)
- Time involved in maintaining a home that would not be involved when renting.
- Possible falling values making it harder to sell when you want to.
- Inability to work with the loan holder when you're late with a payment.
- Possibly higher monthly payments than would be with renting.
- Possibly not being able to live in the community you want because you can't afford to buy there.

COMPARE COSTS AND BENEFITS

Here are several questions that will help you decide if it's time to buy, or if you should keep renting.

WHAT CAN YOU REALLY AFFORD TO PAY EACH MONTH?

Let's look at an example. (This example uses US\$.)

- Suppose you feel that you can afford to comfortably pay \$1,500/mo. in a mortgage payment.

- Now, imagine putting aside a little each month to pay for maintenance and improvement projects (painting, new roof, new kitchen, emergencies, etc). Let's say 10% per month for homes in decent condition. That's \$150/month, based on your \$1,500 comfort level.
- Now, instead of paying \$1,500/mo, you're really looking at paying $\$1,500 + \$150 = \$1,650$. Can you afford \$1,650? If not, then you need to be looking at a monthly mortgage closer to \$1,350.
- **That small difference in monthly payment can mean a difference of \$30,000 in your purchase price**, so it is important to calculate maintenance costs before buying.

If you don't include maintenance costs up front, then the costs will come from somewhere else after you buy—your vacation budget, your new car budget, etc. **You could become what's known as "house poor," a term that means you have a house, but a lower quality lifestyle.**

So before you buy, try to look at you monthly payments realistically, inclusive of your lifestyle goals.

WHAT MORTGAGE WOULD YOU QUALIFY FOR?

You may feel comfortable paying \$1,500/mo, but the important question is 'What loan amount will that qualify you for?'

Several factors go into determining what the lender will decide you can pay and what you can buy:

- Your loan amount is based on your **income, debt, and interest rate.**

- Your interest rate is determined based on your credit rating—which is based on your history of paying your debts, as well as the amount of overall debt you carry.
- The **interest rate** you are given may mean a \$20,000 to \$40,000 difference in the price of home you can buy.

So, although you feel comfortable paying, say \$1,500/mo, the mortgage lender might say that based on your income, debt, and credit score, you really are more comfortable paying \$1,400/mo.

And that means, instead of getting a mortgage for \$239,000, you can only get a mortgage of \$219,000.

So work with your mortgage professional, and go through the entire loan application process. Fill out the loan application. Provide the documentation. Yes, it's arduous. But it's the only way to get accurate figures, and get the coveted "pre-approval letter" that you need when buying a home.

WHY DO YOU REALLY WANT TO OWN A HOME?

Here are your choices: 1. Financial reasons. 2. Pride and roots reasons. Of course, it's both for most people. As a first time buyer, you're aware that ownership has financial benefits. And you also want to live in a place you love and put down roots.

Unfortunately, for many home buyers, the price of a home in their desired location is too high for them. That means that first time buyers need to focus on the first choice: buying for financial reasons.

Look at lower cost alternatives that allow you to build equity and eventually buy up into the area you want to put down



roots. Here are a few ideas for first time buyers to make their first home a smart investment:

- Buy a much smaller home or condominium near the area you want to live.
- Buy a fixer-upper near where you want to live.
- Buy a home in an area you don't want to live. After a few years, decide to either keep it, and put a renter in it, perhaps using the equity to buy another home, or sell it and use the cash to move up.

Each choice has its own costs and benefits. With each choice, the goal is to increase equity so that you can sell and have a larger cash down payment on a home in your preferred location. Create a long-range plan. Then work towards that goal by increasing savings, building equity, and improving your income. And always, always work on reducing debt.

IS YOUR RENT LOW ENOUGH?

If you're paying \$1,000/mo in a \$3,500/mo area, and you have a good landlord, maybe you're better off investing in other things instead of buying a home. Or perhaps buying an investment home in a cheaper area. It is OK to *not* own the home you live in, if it makes financial and emotional sense not to.

But be smart about it. Do the analysis. There are many factors involved in home ownership that may benefit you, such as rising values, interest rate deductions, and the potential to control an asset.

USING A MORTGAGE CALCULATOR

Mortgage calculators should be used as guidelines only, as just another data point. Once you're really serious about buying, the only truly accurate way to know what you can afford and what your payments will be is to go through a full pre-approval process with a mortgage professional.

But until then, mortgage calculators can be a useful tool to help you see how adjustments in down payment, interest rate, and income can affect purchase power. Just be dead sure that the estimate you get includes Principle, Interest, Taxes, Insurance, and Extras charged on the loan, such as Private Mortgage Insurance. If you leave out any of these costs, you will be surprised when your mortgage professional shows you a figure lower than you thought.

Calculators come in several varieties. Here are four calculator suggestions you can look up on Google. Use a calculator designed for your country.

1. House Price, Based on Payment
2. Payment, Based on House Price
3. Payment, Based on Income
4. Rent vs. Buy



FINAL WORD

As a first time buyer, you are swept up in the excitement of buying—the dream of owning. You look at homes online and imagine putting in your own garden, painting the baby's room, and decorating the way you want.

But you are smart. You know you're making a financial decision, not simply an emotional one. You know the factors that go into deciding when to stop renting and buy a first home are complex.

There are no simple answers. But I'd like to leave you with this final word:

Don't let fear of buying stop you from buying a home. There are plenty of professionals out there who can guide you through this decision and help you make a sound financial choice. If not me, then find a real estate consultant you trust to sit down with you and discuss the ideas presented in this report. Work with a mortgage professional to get accurate figures.

I want you to know that I'm always available to you—or your friends and family—for a home buying consultation. And I want you to know that I'll spend whatever time you need to answer your questions so you can make the right decision in your own time.

CALL TO ARRANGE A CONSULTATION APPOINTMENT

