

It's Your Money

It's Your Money

Should you rent or is it time to buy?

By: Mike Sposato



Tired of paying rent? As I've interviewed many people over the last few years I hear an overwhelming sense of frustration from the individuals who are renting. They typically make complaints like: *They're tired of making their landlords rich. They want to buy something "in the future" but now isn't the right time. They are confused and a little scared about how to buy a property. They just don't understand what it really takes to actually work through the process of buying a home.*

Does any of this sound familiar to you?

The truth is that home ownership is not for everyone. There are people who have real life circumstances in which the best option for them is to rent. As you read this article I hope it will help you decide if you'd be better off renting or if it's time for you to step up and become a home owner.

Consider this...

In order to illustrate the debate "rent vs. own", I'll use a story of one of my clients who in the past year was faced with this decision. My client, Bob, was renting an apartment last fall and paying roughly \$900 per month in rent. He wanted to buy in Uptown, in order to be part of the "Uptown buzz" and hopefully build equity in a property.

I worked with Bob as his Buyer's Agent and found him a town home in the 4th Ward. I negotiated a great deal and Bob ended up purchasing the town home for somewhere in the mid \$150,000's. His total monthly payment (including principal, interest, taxes, insurance and home owner's fees) was rough-

ly \$1,300. In terms of cash flow he was paying about \$400 more per month than his rent.

However, Bob understood the income tax benefits from writing off his mortgage interest and real estate taxes*. Besides he was no longer wasting his money on rent. Upon doing his taxes at the end of the year, Bob realized that he was paying about the same over the course of the year while owning than he was while he was renting due to the income tax benefits*.

To make a long story short, Bob recently needed me to sell his place because he got a job promotion that was taking him out of the area. The day I officially put his town home on the market I had over 10 prospective buyer's look at it that same day. By the end of the first day I had negotiated an offer in the high \$180,000's and put his town home under contract before finishing dinner the first night his place was put on the market.

Bob had the property less than a year and made a gross profit of \$32,000

Why Rent?

Again, purchasing may not be for everyone. Here are the top 3 circumstances and reasons where renting may be your best option:

1. *You know upfront that you will be staying in the area for less than 2 years.*
2. *You have bad credit. (Call me if you would like to learn how to improve your credit rating)*
3. *You are new to the area and want to take 6 months to a year in order to get to know the City.*

Think About This

If you know you will be in the area for 3 or more years, the opportunity for building personal wealth through real estate ownership is very compelling. Using basic math, if you are paying \$800 per month in rent for 3 years you will pay \$28,800 out of your pocket with absolutely no return on your money. Imagine if that same \$800 were going towards your mortgage and after that same 3 year period you conservatively built up equity of



\$40,000 in your property through paying down your mortgage and getting the benefit of your property appreciating in value. The net difference in real dollars is staggering.

Benefits of Home Ownership:

Building Equity through reducing your mortgage debt and property appreciation

Income tax deductions (Mortgage interest and real estate taxes are "write-offs"):

1. *Improved Credit Rating.*
2. *Status among your peers.*
3. *You do not pay taxes on your capital gain unless you make a profit of over \$250,000 if you're single or \$500,000 if you're married at the time of the sale.*

The overall benefit of home ownership to you is you end up building wealth versus wasting money on rent.

Common Misconceptions about Buying a Home:

1. **Down Payments.** In "the old days" you used to have to put 20% down to buy a home. In today's competitive market mortgage lenders have several loan programs for no money down.
2. **Commitment to your property.** The average person moves every 5 years. Try not to look at your home purchase as the place you will live forever because life brings changes and those

changes often time mean you have to move.

In closing, if this article has helped you understand the rent versus owning dilemma a little more clearly, than I've accomplished my objective. If after reading this information you feel like you want to learn more about becoming a home owner and developing your own wealth through real estate, the next step is aligning yourself with the right Realtor.

Please feel free to drop me a line through my email at Mike@CenterCityProperty.com or just give me a call at 704-619-7070 and I'll be happy to help you in anyway I can.

I hope you have a great Holiday Season and an awesome 2005!

Take Care,

Mike Sposato
Your Center City Realtor
www.CenterCityProperty.com
704-619-7070

** Please consult with an accountant, licensed CPA or tax advisor in order to learn about the tax ramifications and benefits related to real estate. These illustrative points in reference to tax benefits were used to educate our readers and not to be construed as tax advice.*