

# Why Buying a Home Makes Cents!

As a general rule, homes appreciate about four or five percent a year. Some years will be more, some less. The figure will vary from neighborhood to neighborhood, and region to region.

To some, 5% may not seem like that much at first. Stocks (at times) appreciate much more, and you may earn well over the same return with a very safe investment in treasury bills or bonds. But take a second look: Presumably, if you bought a \$200,000 house, you did not pay cash for the home. Like most of us, you got a mortgage, too. Suppose you put as much as twenty percent down—which would be an investment of \$40,000.

At an appreciation rate of just 5% annually, a \$200,000 home would increase in value \$10,000 during the first year. That means you actually earned \$10,000 in equity with an investment of \$40,000. Your annual “return on investment” would be a whopping twenty-five percent!

Of course, as a homeowner you are making mortgage payments and paying property taxes, along with a few other costs. However, since the interest on your mortgage and your property taxes are both tax deductible, the government is essentially subsidizing your home purchase. All of the interest and property taxes you pay in a given year can be deducted from your gross income to reduce your taxable income.

Property taxes are deductible, too. Whatever property taxes you pay in a given year may also be deducted from your gross income, lowering your overall tax obligation.

## Stable Monthly Housing Costs

When you rent a place to live, you can usually expect your rent to increase almost every year—or, at times, even more often than that! However, if you get a fixed-rate mortgage when you buy a home, you have the same monthly payment amount for thirty years! Even if you get an adjustable rate mortgage, your payment will usually stay within a certain range for the entire life of the mortgage—and interest rates aren’t nearly as volatile now as they were in the late seventies and early eighties. Imagine how much your rent might be ten, fifteen, or even thirty years from now? Which makes more sense? ...To rent or buy?

## Forced Savings

Some people are just lousy at saving money, and a house is an automatic savings account. You accumulate savings in two ways. Every month, a portion of your payment goes toward the principal. Admittedly, in the early years of the mortgage, it is not much. Over time, however, the amount does accelerate.

Second, your home appreciates in value. As previously stated, average appreciation on a home is approximately 5%, although it may vary from year to year, and in some years may even depreciate. Over time, however, history has shown that owning a home is one

of the very best financial investments you can make.

## Freedom & Individualism!

When you rent, you are normally limited on what you can do to improve your home. For example, you have to get permission to make certain types of improvements. Nor does it make sense to spend thousand of dollars painting, putting in carpet, tile or window coverings when the main person who benefits is the landlord or owner of the property and not you.

Since your landlord wants to keep his expenses to a minimum, he or she will probably not be spending much to improve the place, either. When you own a home, on the other hand, you can do pretty much whatever you want. And *only you* reap the benefits of any improvements you make, plus you get to live in an environment that *you have created*, not some faceless landlord.

## A Lot More Space!

Both indoors and outdoors, you will probably have more space if you own your own home. Even moving to a condominium from an apartment, you are likely to find you have much more room available—your own laundry and storage area, and hopefully bigger rooms. Apartment complexes are more interested in creating the maximum number of

income-producing units than they are in creating space for each of the tenants.

If you are moving to a home for the first time, you are going to be very pleased with all the new space you have available. You may even have to buy more “stuff to fill it up!”

*Do you know someone who is tired of renting? Do you know someone who is ready to take that next big step and become a first-time home buyer? If so, feel free to pass this newsletter on to them. Or pass on the phone number of your local mortgage or real estate professional.*

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# House Inspecting: 10 Things You Can Check for Yourself!

Even new homes may have hidden problems. Here are ten clues for determining a house's overall quality before you commit to the cost of hiring a house inspector:

**1) The Structure:** From a reasonably distant vantage point, look at the house. Do the walls appear to be plumb and flat? From inside, are any walls bowed or not square at the corners? When you jump in the middle of the living room floor, does it flex or feel solid?

**2) Water Control:** Does the ground slope away from the base of the house? Will gutters, downspouts and drainage pipes carry excess water away from the house...or into the basement? Is there any evidence of water damage?

**3) The Roof:** Is the roof new and in good shape? Does it look neat and properly applied?

**4) Details:** Do you see signs of quality workmanship in the finish details, such as moldings, tile work, hardware and paint?

**5) Kitchen & Bath Fixtures:** Are the sinks, toilets and tubs installed with quality fixtures? Do they work properly? Is the water pressure good when you turn on the faucets and flush the toilet?

**6) Electrical System:** Are the number and locations of receptacles adequate to the needs of the house? Is the main circuit breaker marked at least "100 amps"?

**7) Water Heater & Plumbing:** Is the water heater gas or electric (gas usually is more efficient)? Water supply pipes running from the water heater to the fixtures should be copper.

**8) Heating:** Where is the furnace or heater located and what type is it? Are any rooms not heated? Do registers look adequate for heating the spaces? Is the house air-conditioned?

**9) Insulation:** Look in the attic for insulation; R-19 (6 inches of fiberglass, for example) is a minimum in moderate climates;

up to R-38 (12 inches of fiberglass) is required in cold climates. Simply remove a receptacle cover on a perimeter wall to check for wall insulation.

**10) Fireplace:** Does it have screen or glass doors (doors are more efficient). What about dampers and log lighters? Is there a combustion vent that draws air from outside and a spark arrestor at the top of the chimney?



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## Effect of Economic Data on Interest Rates

• = minimal effect    ••••• = maximal effect

Economic Event	Effect on Interest Rates	Significance of Event
Consumer Price Index (CPI) rises	•••••	Indicates rising inflation
Dollar rises	•	Imports cost less indicates falling inflation
Durable goods orders increase	•••	Indicates strong economy
Gross Domestic Product (GDP) increases	•••••	Indicates strong economy
Home sales increase	•••	Indicates strong economy
Housing starts rise	•••	Indicates strong economy
Industrial Production rises	•••	Indicates strong economy
Business inventories rise	•••	Indicates weak economy
Treasury Auction has high demand	•	High demand leads to lower rates
Retail sales increase	••	Indicates strong economy
Unemployment rises	•••••	Indicates weak economy
Leading indicators (LEI) increase	•••	Indicates strong economy