

# The True Cost of Renting vs. Owning

\*Views and opinions  
expressed during this  
course do not necessarily  
reflect those of the Board

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## Dan Mullen, CPA



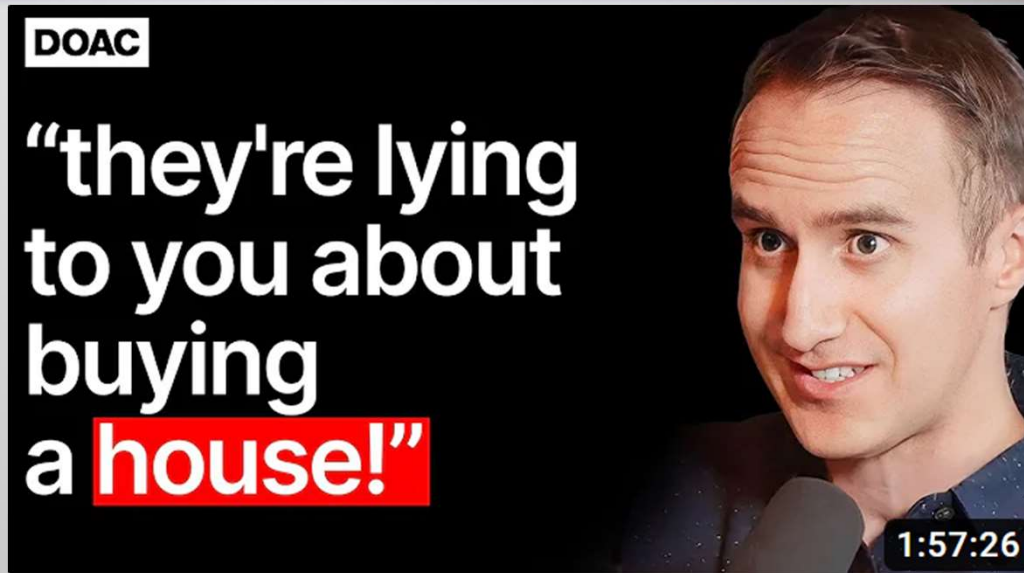
CPA since **2015**

Help Clients Understand  
the **Financial Impact**  
of their Real Estate  
Decisions

Content for Real  
Estate and **Personal**  
**Finances/Investing**

Experience Applied  
to  
**Real Estate**

# Does Homeownership Make Sense?



## 5 Objectives

1. Understand and convey the impact of inflation on renting and owning homes
2. Understand and convey the long- and short-term financial impact of housing choices
3. Overcome common client objections (down payment, credit, monthly payment)
4. Improve How We Tell This Story to Prospects & Clients



# Benefits of Owning

“I just bought a house and I’ll be paying about \$2600 vs \$1600 renting (this is before renewal, so maybe that goes up to \$1700).

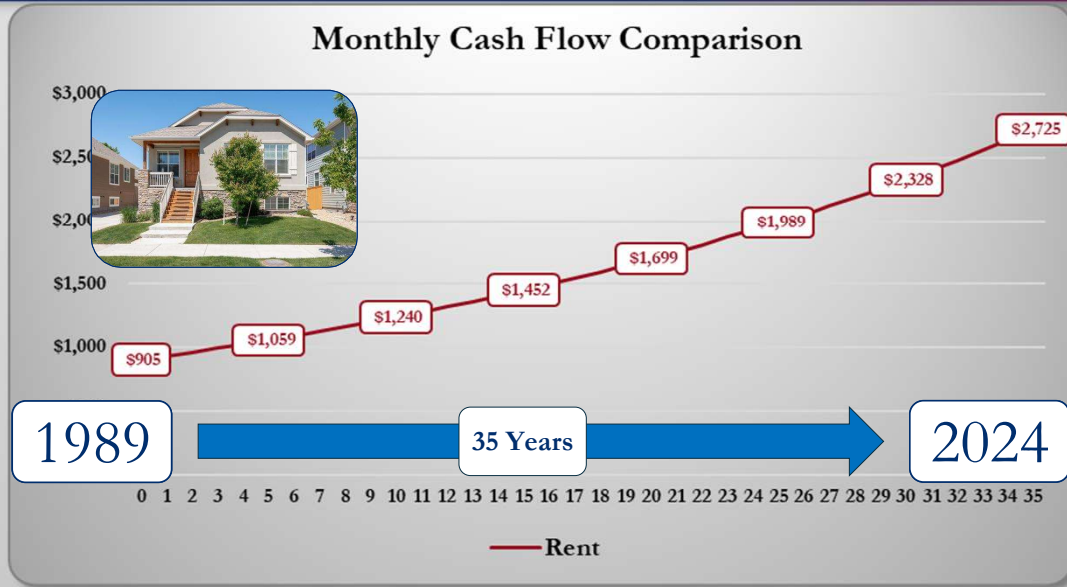
But.. I’m going to have a yard to garden in and for my dog to run around. I’m going to have a kitchen with a garbage disposal and a dish washer. I’m not going to have to use basement coin operated laundry. I’m going to be able to just get on my bike and go without lugging it downstairs. I’m going to finally be able to play my guitar through an amp again. I can have friends and family visit without sleeping on an air mattress.”

*-Reddit comment 2/13/2024*

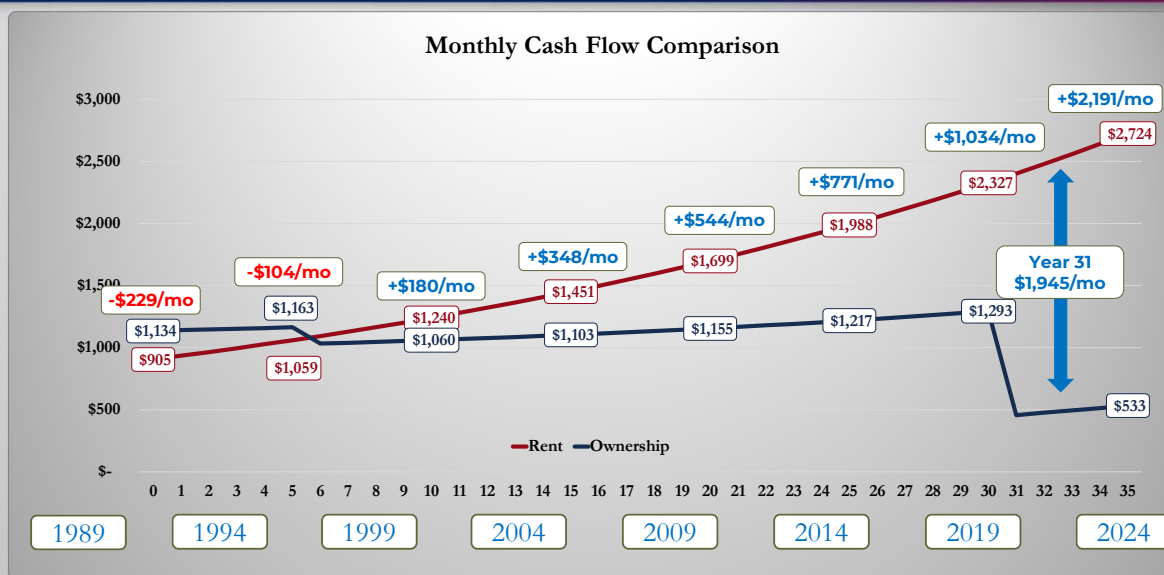
# Inflation – Looking *Ahead*



# Inflation – Looking *Back*

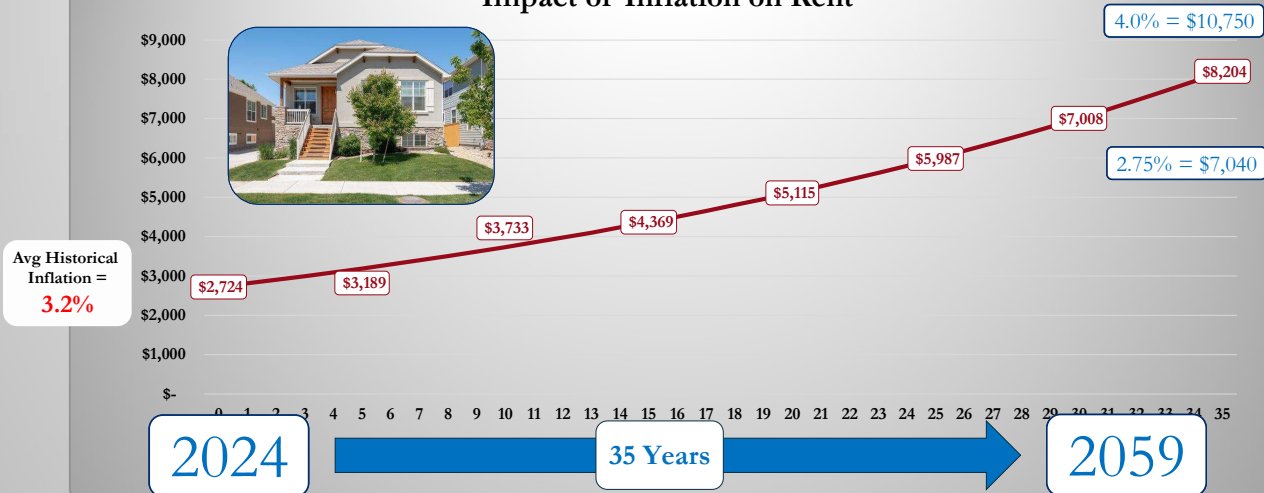


# Cash Flow Comparison



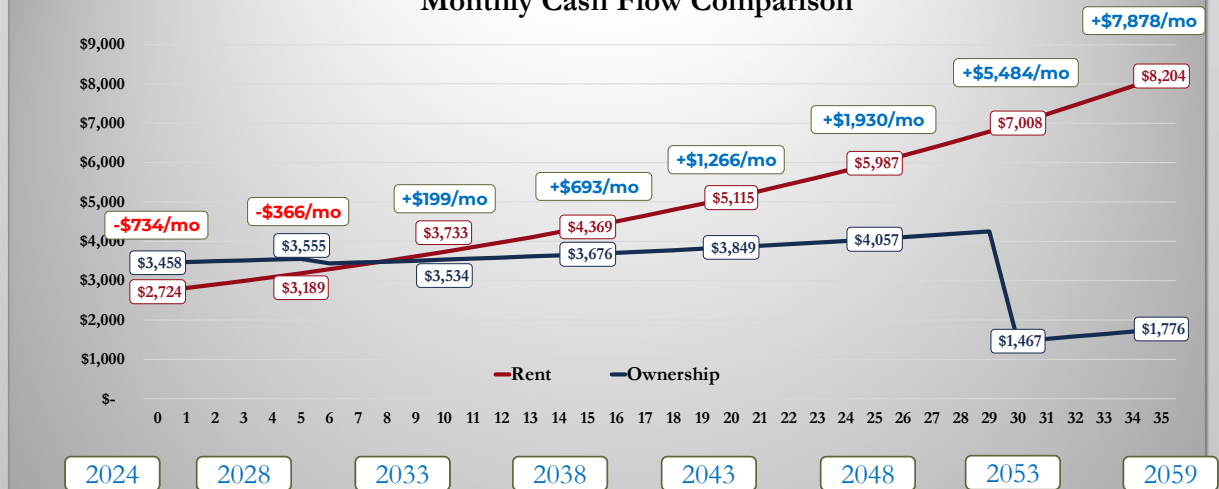
# Inflation – Looking Ahead

Impact of Inflation on Rent



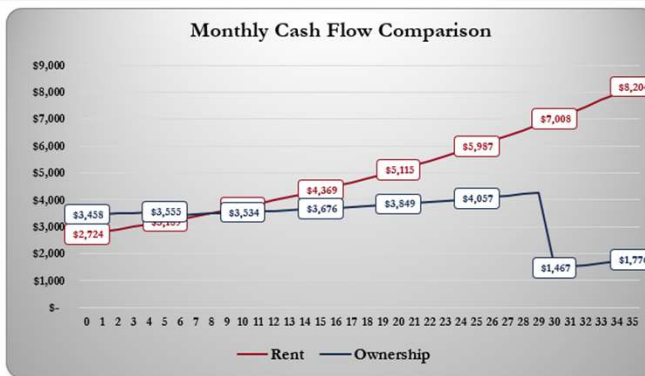
# Cash Cost Comparison

Monthly Cash Flow Comparison





Rent Details	
Monthly Rent	\$ 2,675
Monthly Utilities (if different)	\$ -
Monthly Other	\$ -
Annual Renters Insurance	\$ 590
Monthly Rent Cost	\$ 2,724
Transaction Details	
Sale Price	\$ 450,000
Down Payment (%)	5.0%
Down Payment (\$)	\$ 22,500
Closing Costs (Out of Pocket)	\$ 4,800
Closing Costs (In Loan)	\$ -
Rate Buydown	N/A
Loan Rate	7.000%
Loan Term	30
Monthly PMI	\$ 138
PMI Term (yrs)	5
Ownership Expenses	
Annual Tax	\$ 2,475
Annual Insurance	\$ 990
Total Mortgage Payment	\$ 3,271
Monthly HOA	\$ -
Monthly Utilities (if different)	\$ -
Annual Maintenance (%)	0.50%
Annual Maintenance (\$)	\$ 2,250



Key Metrics	
Loan Amount	\$ 427,500
Total Needed to Close	\$ 27,300
Monthly Mortgage Payment	\$ 3,271
Monthly Ownership Expense	\$ 3,458
Monthly Rent Expenses	\$ 2,724
Monthly Cash Flow Diff.	\$ (734)

End of Year 1 Snapshot	
Total Cash Outlay	\$ (734)
Equity	\$ 47,093
Total Cash Difference	\$ (36,111)
Total Value of Ownership	\$ 10,982

End of Year 5 Snapshot	
Monthly Cash Difference	\$ (444)
Equity	\$ 158,369
Total Cash Difference	\$ (62,790)
Total Value of Ownership	\$ 95,580

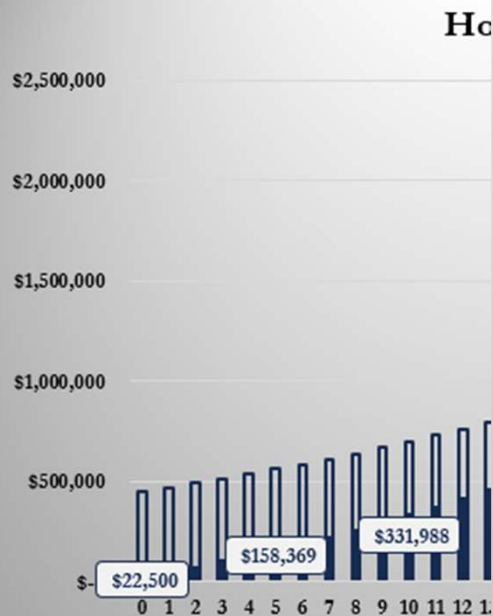
End of Year 10 Snapshot	
Monthly Cash Difference	\$ 108
Equity	\$ 331,988
Total Cash Difference	\$ (68,212)
Total Value of Ownership	\$ 263,776



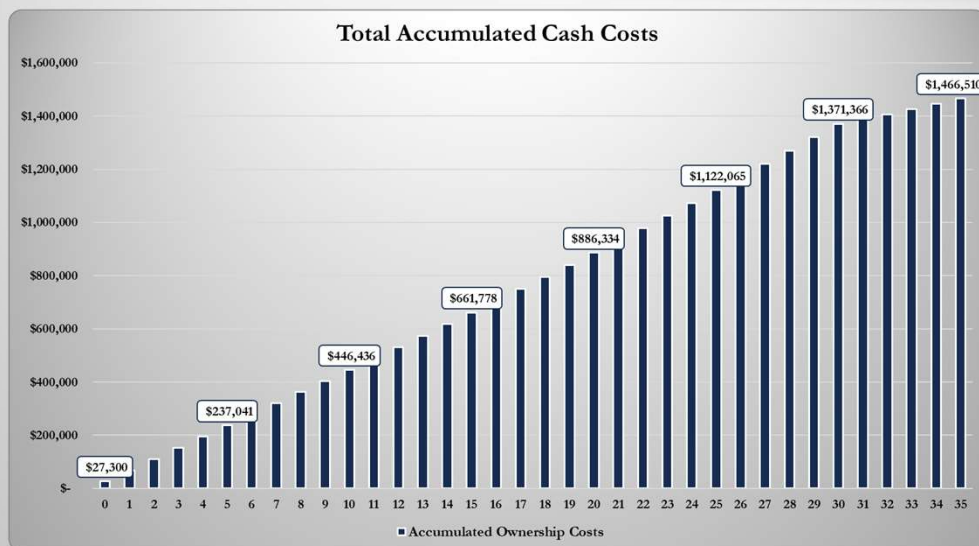
Rent Details	
Monthly Rent	\$ 2,675
Monthly Utilities (if different)	\$ -
Monthly Other	\$ -
Annual Renters Insurance	\$ 590
Monthly Rent Cost	\$ 2,724
Transaction Details	
Sale Price	\$ 450,000
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Closing Costs (Out of Pocket)	\$ 4,800
Closing Costs (In Loan)	\$ -
Rate Buydown	N/A
Loan Rate	7.000%
Loan Term	30



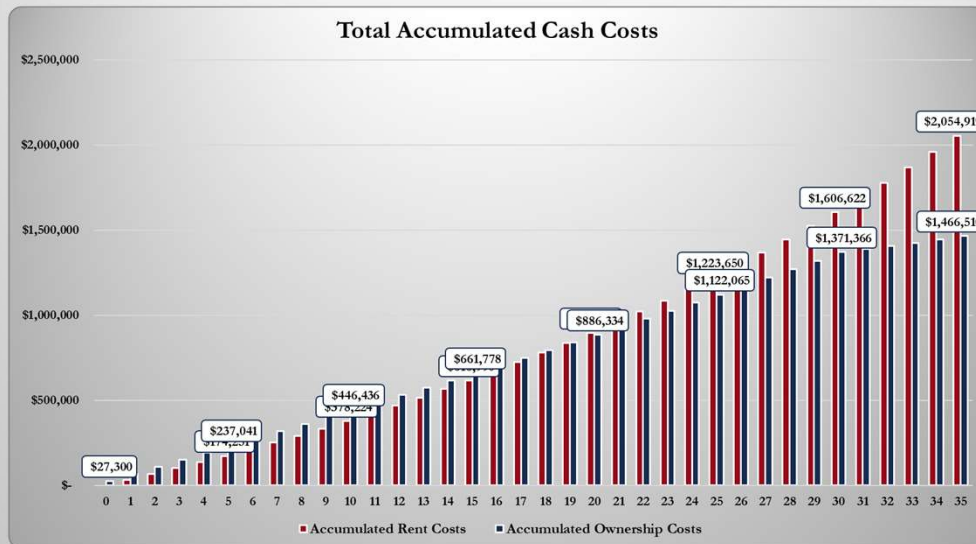
Monthly PMI	\$ 138
PMI Term (yrs)	5
<b>Ownership Expenses</b>	
Annual Tax	\$ 2,475
Annual Insurance	\$ 990
Total Mortgage Payment	\$ 3,271
Monthly HOA	\$ -
Monthly Utilities (if different)	\$ -
Annual Maintenance (%)	0.50%
Annual Maintenance (\$)	\$ 2,250
Monthly Extra to Mortgage	\$ -
<b>Property Income</b>	
Monthly Income	\$ -
Monthly Income Term (Yrs)	0
<b>Assumptions</b>	
Annual Rent Increase	3.2%
Annual Home Appreciation	4.5%
Inflation	3.2%



# Total Cash Flow Comparison



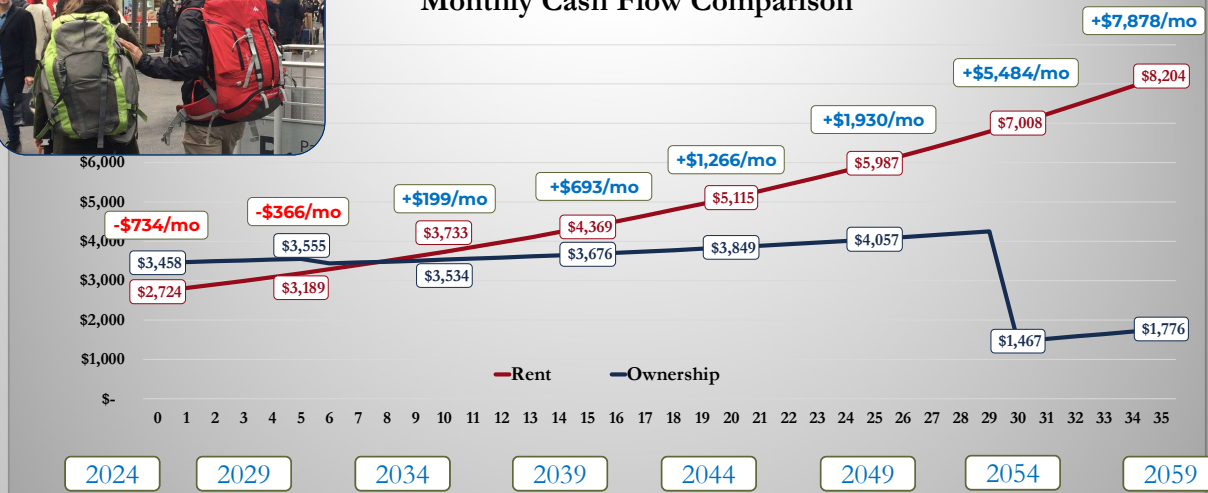
# Total Cash Flow Comparison



# Cash Cost Comparison

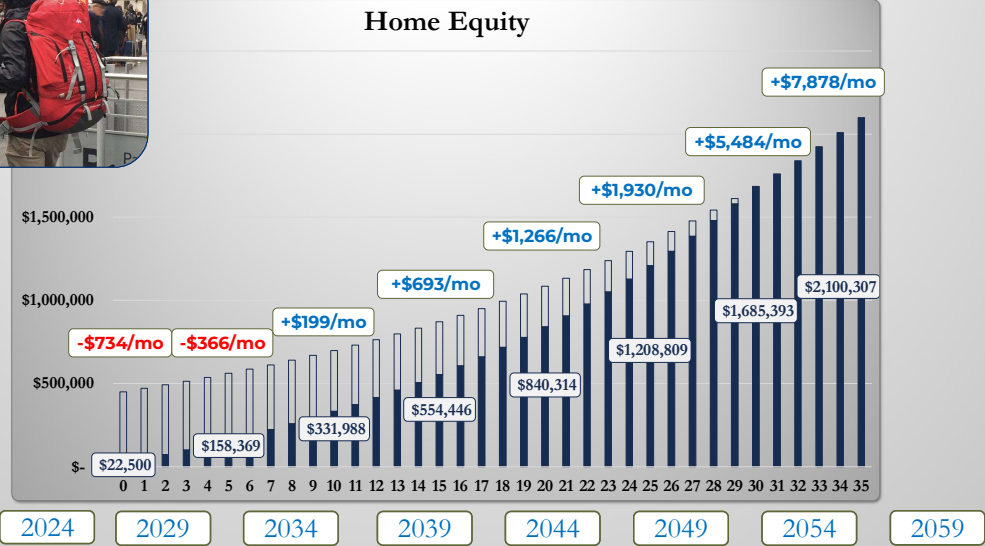


**Monthly Cash Flow Comparison**





# Home Equity

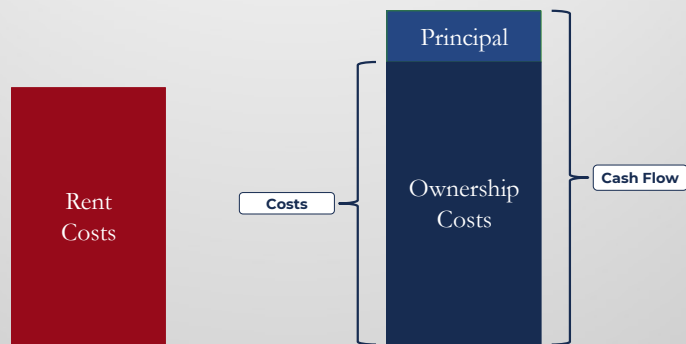


# The **TRUE** COST of Shelter

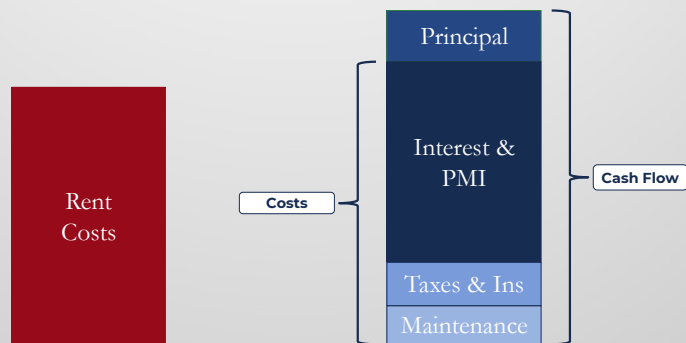
Rent  
Costs

Ownership  
Costs

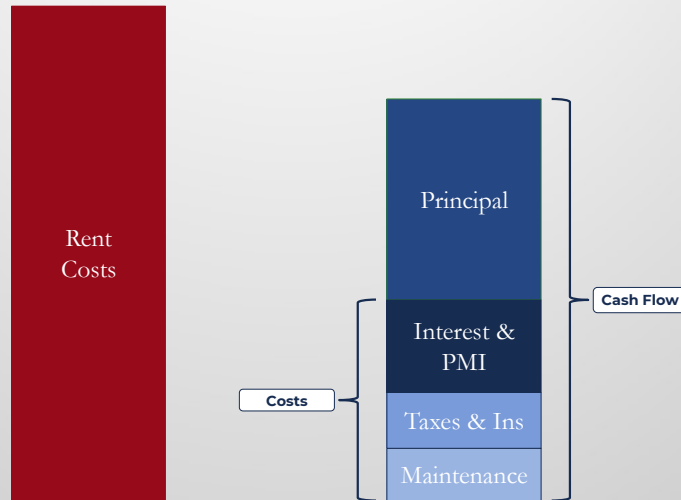
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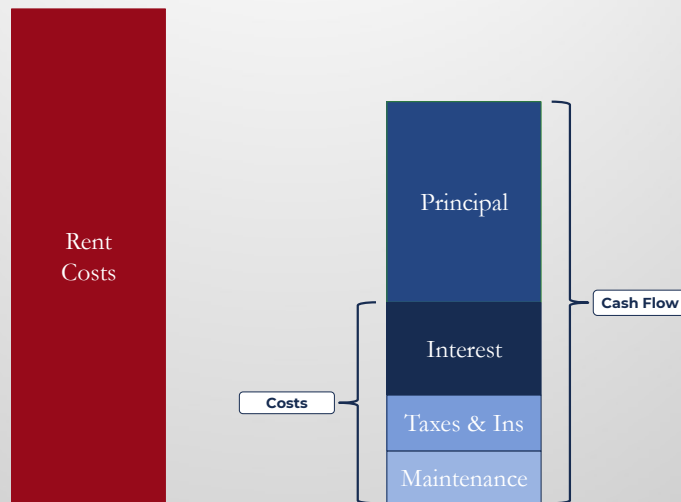
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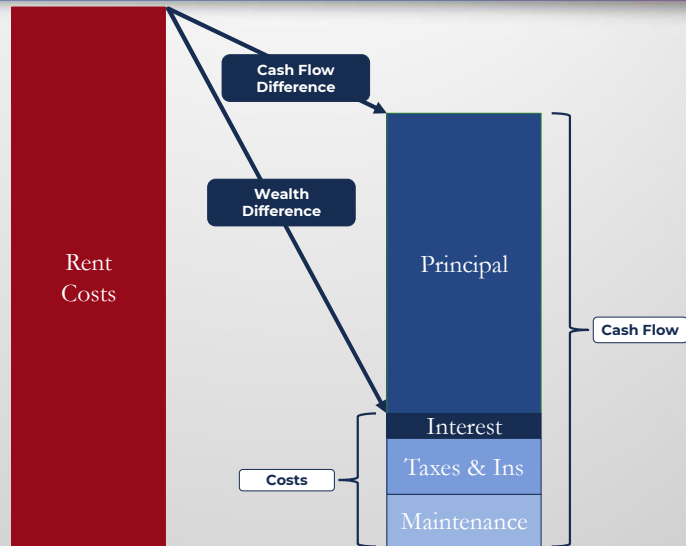
# The **TRUE** COST of Shelter



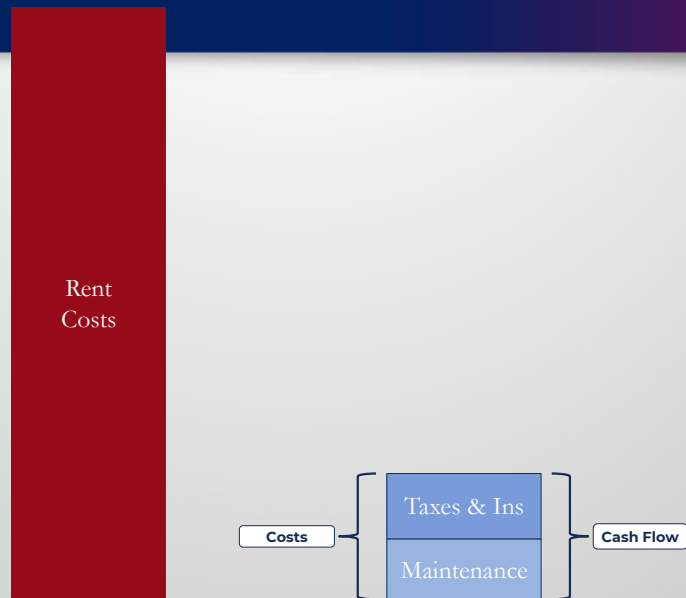
# The **TRUE** COST of Shelter



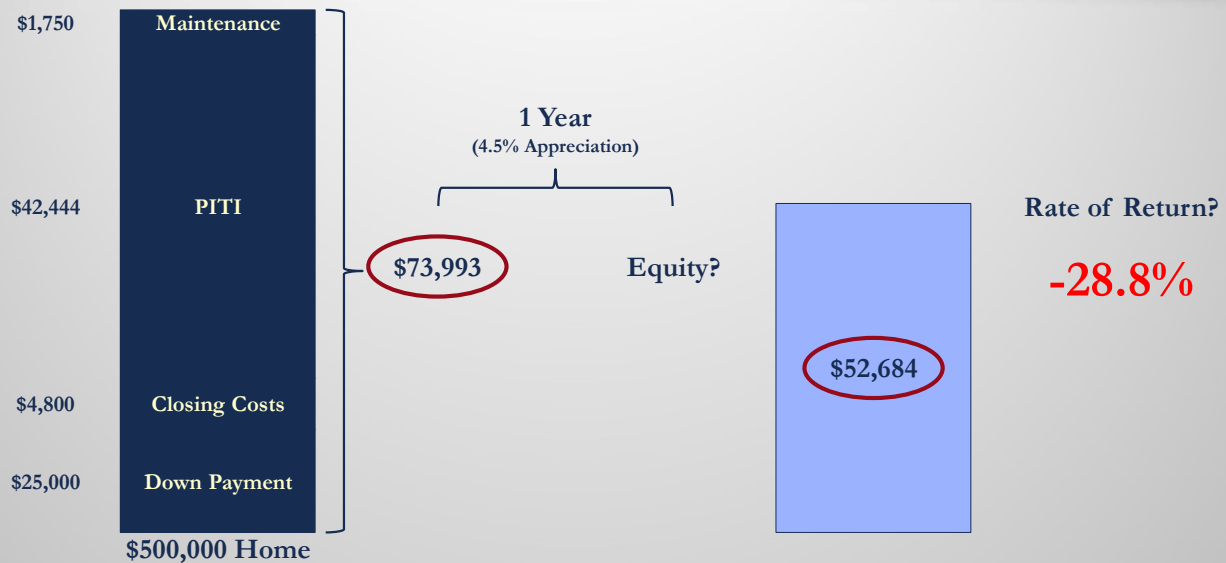
# The **TRUE** COST of Shelter



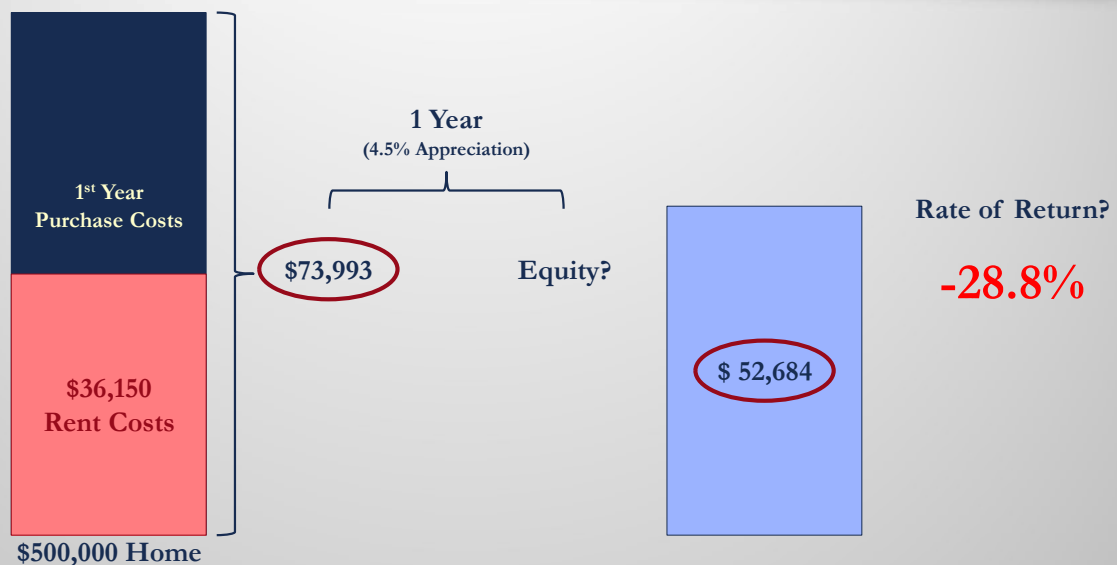
# The **TRUE** COST of Shelter



# Does Purchasing Make Sense?



# Does Purchasing Make Sense?





# Does Purchasing Make Sense?



\$37,843

1st Year  
Purchase Costs

\$36,150  
Rent Costs

\$500,000 Home

Equity?



\$ 52,684

Rate of Return?

**-28.8%**

# Does Purchasing Make Sense?



\$37,843

1st Year  
Purchase Costs

\$36,150  
Rent Costs

\$500,000 Home

Equity?



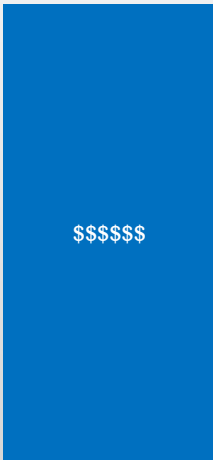
\$ 52,684

Rate of Return?

**39.2%**

# Where Your Money Goes

Your Wealth



# Where Your Money Goes

1<sup>st</sup> Rent Payment:

- Rent & Insurance      \$2,724

Appreciation      \$0

Wealth Difference      -\$2,724



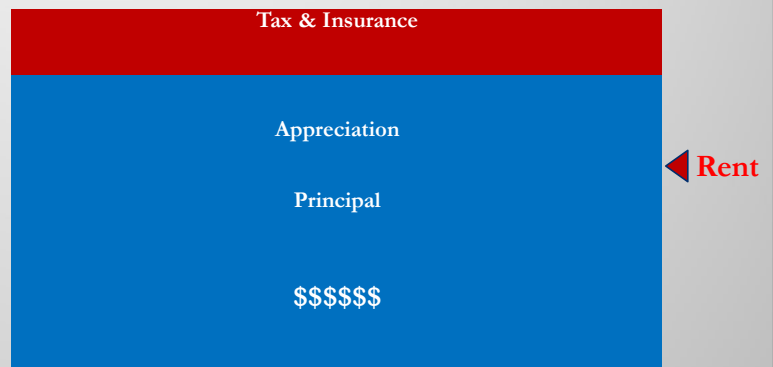
# Where Your Money Goes

## 1<sup>st</sup> Mortgage Payment:

- Tax & Insurance	-\$289
- Interest & PMI	-\$2,632
- Principal	<del>-\$350</del>
Payment	-\$3,271
Cost	-\$2,921
Appreciation (4.5%)	\$1,688
Maintenance	-\$188
Wealth Difference (owning)	-\$1,421
Wealth Difference (renting)	-\$2,724
Ownership Advantage	\$1,303

## Ownership Advantage Per Paycheck

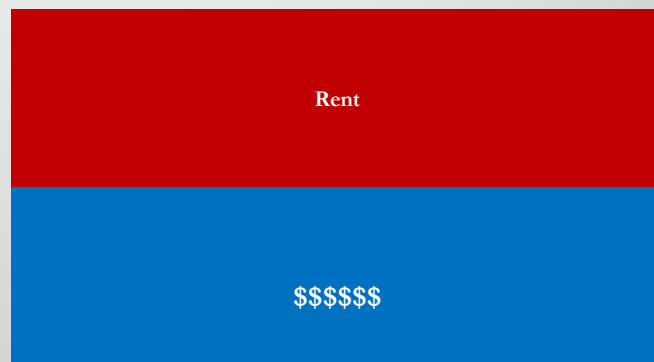
\$652



# 3 Years Later

## 37<sup>th</sup> Rent Payment:

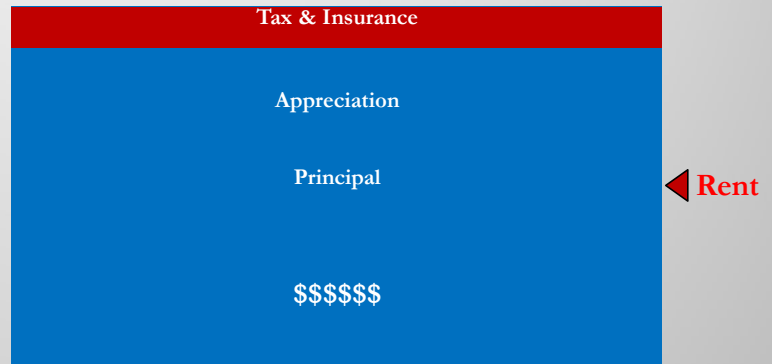
- Rent & Insurance	\$3,034
Appreciation	\$0
Wealth Difference	-\$3,034



# 3 Years Later

## 37<sup>th</sup> Mortgage Payment:

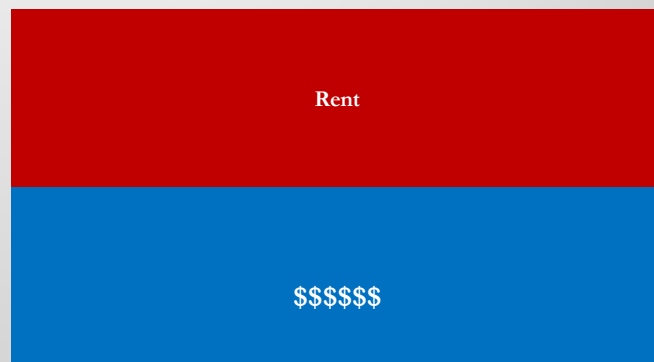
- Tax & Insurance	-\$328
- Interest & PMI	-\$2,550
- Principal	<del>-\$432</del>
Payment	-\$3,310
Cost	-\$2,878
Appreciation (4.5%)	\$1,926
Maintenance	\$214
Wealth Difference (owning)	-\$1,166
Wealth Difference (renting)	-\$3,034
Ownership Advantage	\$1,868



# 5 Years Later

## 61<sup>st</sup> Rent Payment:

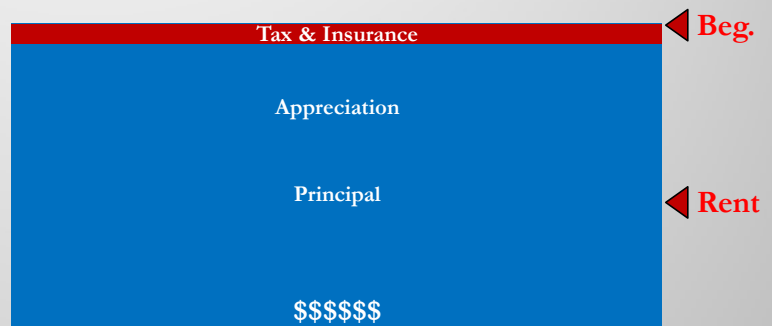
- Rent & Insurance	\$3,291
Appreciation	\$0
Wealth Difference	-\$3,291



# 5 Years Later

## 61<sup>st</sup> Mortgage Payment:

- Tax & Insurance	-\$349
- Interest (no PMI)	-\$2,347
- Principal	<del>-\$497</del>
Payment	-\$3,193
Cost	-\$2,696
Appreciation (4.5%)	\$2,103
Maintenance	\$234
Wealth Difference (owning)	-\$827
Wealth Difference (renting)	-\$3,291
Ownership Advantage	2,464



# 10 Years Later

## 121<sup>st</sup> Rent Payment:

- Rent & Insurance	\$3,852
Appreciation	\$0
Wealth Difference	-\$3,852

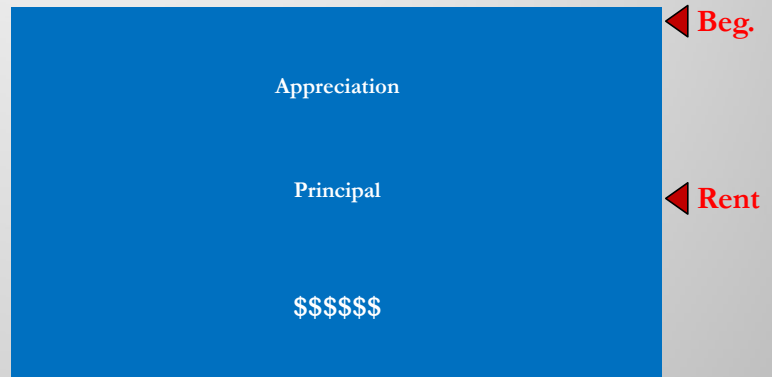




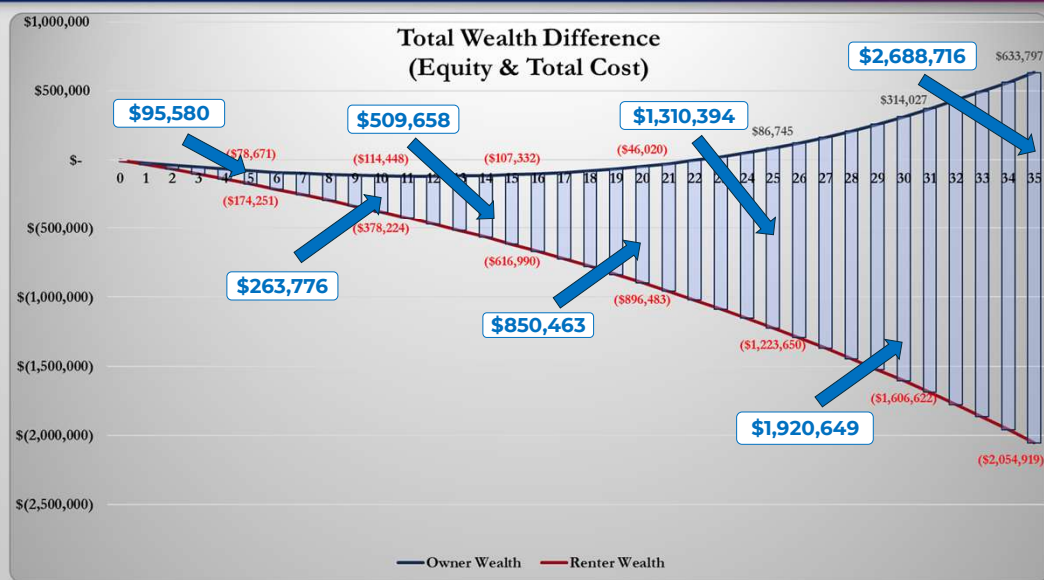
# 10 Years Later

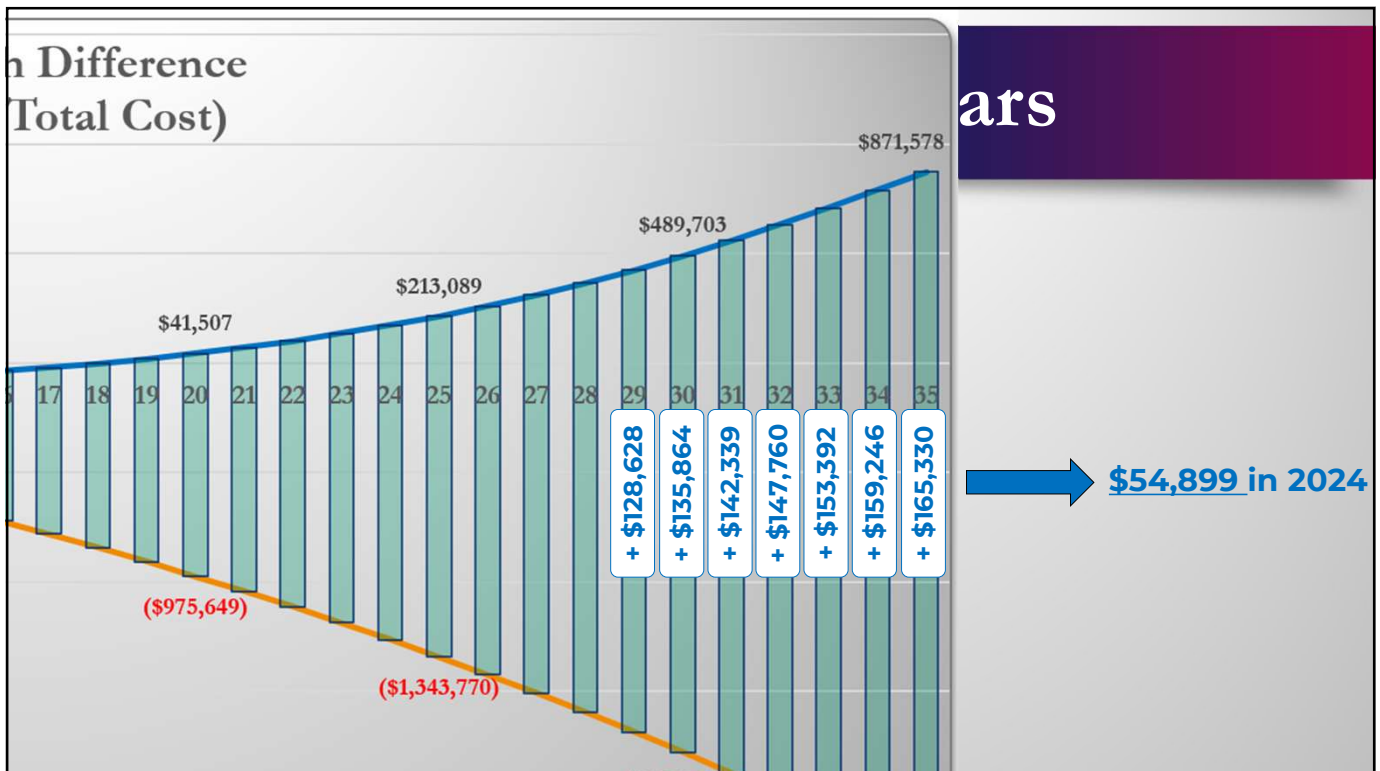
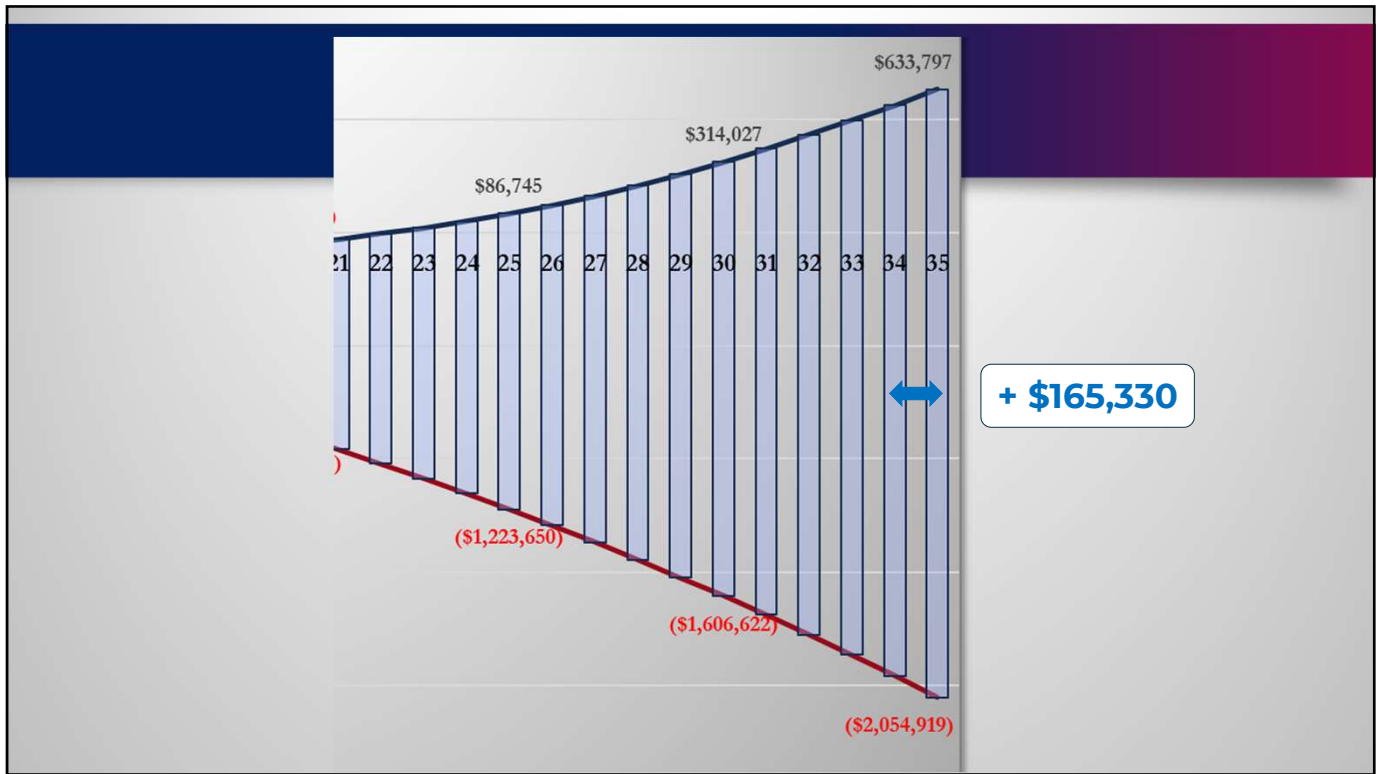
## 121<sup>st</sup> Mortgage Payment:

- Tax & Insurance	-\$393
- Interest (no PMI)	-\$2,353
- Principal	<del>-\$725</del>
Payment	-\$3,471
Cost	-\$2,746
Appreciation (4.5%)	\$2,621
Maintenance	\$291
Wealth Difference (owning)	-\$219
Wealth Difference (renting)	-\$3,852
Ownership Advantage	\$3,633



# Wealth Difference – 35 Years





# Retire with Dignity Or Despair

With the example I've been using, income from a reverse mortgage + social security is greater than the median income in the U.S.



## Understanding Loan Estimates pg 1 and Games Lenders Play

Save this Loan Estimate to compare with your Closing Disclosure.

### Loan Estimate

DATE ISSUED		LOAN TERM	30 years
APPLICANTS		PURPOSE	Purchase
		PRODUCT	Fixed Rate
		LOAN TYPE	<input checked="" type="checkbox"/> Conventional <input type="checkbox"/> FHA <input type="checkbox"/> VA <input type="checkbox"/> _____
		LOAN ID #	1224245349
PROPERTY		RATE LOCK	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, until
SALE PRICE	\$490,000	<small>before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on</small>	

**Buyers focus on:**

Loan Terms		Can this amount increase after closing?
Loan Amount	\$465,500	NO
Interest Rate	7.625%	NO
Monthly Principal & Interest <small>See Projected Payments below for your Estimated Total Monthly Payment</small>	\$3,294.78	NO

# Understanding Loan Estimates pg 1 and Games Lenders Play

Projected Payments		
Payment Calculation	Years 1 - 13	Years 14 - 30
Principal & Interest	\$3,294.78	\$3,294.78
Mortgage Insurance	+ 74	+ —
Estimated Escrow <i>Amount can increase</i>	252	+ 252
<b>Estimated Total Monthly Payment</b>	<b>\$3,621</b>	<b>\$3,547</b>
<b>Estimated Taxes, Insurance &amp; Assessments</b> <i>Amount can increase over time</i>	\$252 a month	<b>This estimate includes</b> <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <small>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</small>
<b>In escrow?</b>		<b>YES</b> <b>YES</b>
Costs at Closing		
Estimated Closing Costs	\$6,571	Includes \$3,970 in Loan Costs + \$5,841 in Other Costs - \$3,240 in Lender Credits. See page 2 for details.
<b>Estimated Cash to Close</b>	<b>\$19,500</b>	Includes Closing Costs See Calculating Cash to Close on page 2 for details.

# Understanding Loan Estimates pg 2 and Games Lenders Play

## Closing Cost Details

### Loan Costs

A. Origination Charges	\$1,110
% of Loan Amount (Points)	
Underwriting Fee	\$1,110

### Other Costs

Beware of shenanigans!  
Lender has NO control  
over these.

# Understanding Loan Estimates pg 2 and Games Lenders Play

[REDACTED]

Beware of shenanigans!  
Lender has NO control  
over these.

I. TOTAL OTHER COSTS (E + F + G + H)	\$5,841
J. TOTAL CLOSING COSTS	\$6,571
D + I	\$9,811
Lender Credits	-\$3,240

**Calculating Cash to Close**

[REDACTED]

D. TOTAL LOAN COSTS (A + B + C)	\$3,970
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## Calculating Cash to Close

<b>D. TOTAL LOAN COSTS (A + B + C)</b>	<b>\$3,970</b>
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## Understanding Loan Estimates pg 3 and Games Lenders Play

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$209,093 \$24,515	Total you will have paid in principal, interest, mortgage insurance, and loan costs. Principal you will have paid off.
Annual Percentage Rate (APR)	7.822%	Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	155.453%	The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$209,093 \$24,515	Total you will have paid in principal, interest, mortgage insurance, and loan costs. Principal you will have paid off.
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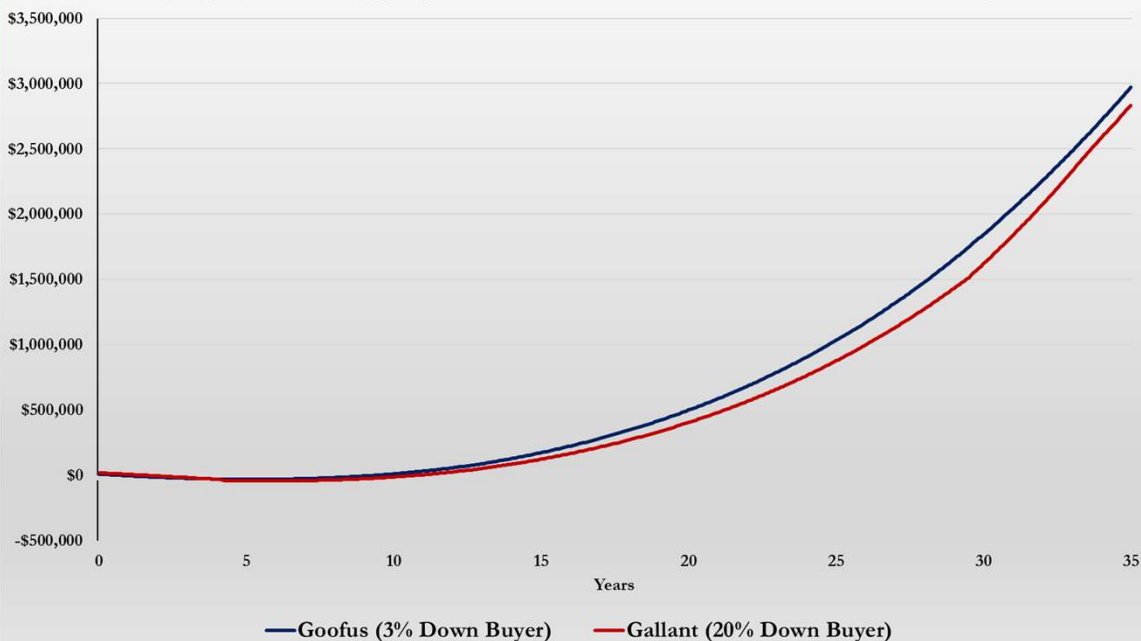
# 3% or 20% Down?

## Assumptions

- Goofus and Gallant both have enough to buy a \$450k house today with 3% down + closing costs.
- Goofus buys today, Gallant rents and waits until he has 20% down + closing costs in savings.
- When homeownership generates a less favorable cash flow than renting, renters add the difference to Savings, and vice versa.
- Both couples perpetually qualify for their mortgages and neither refinances at any time.

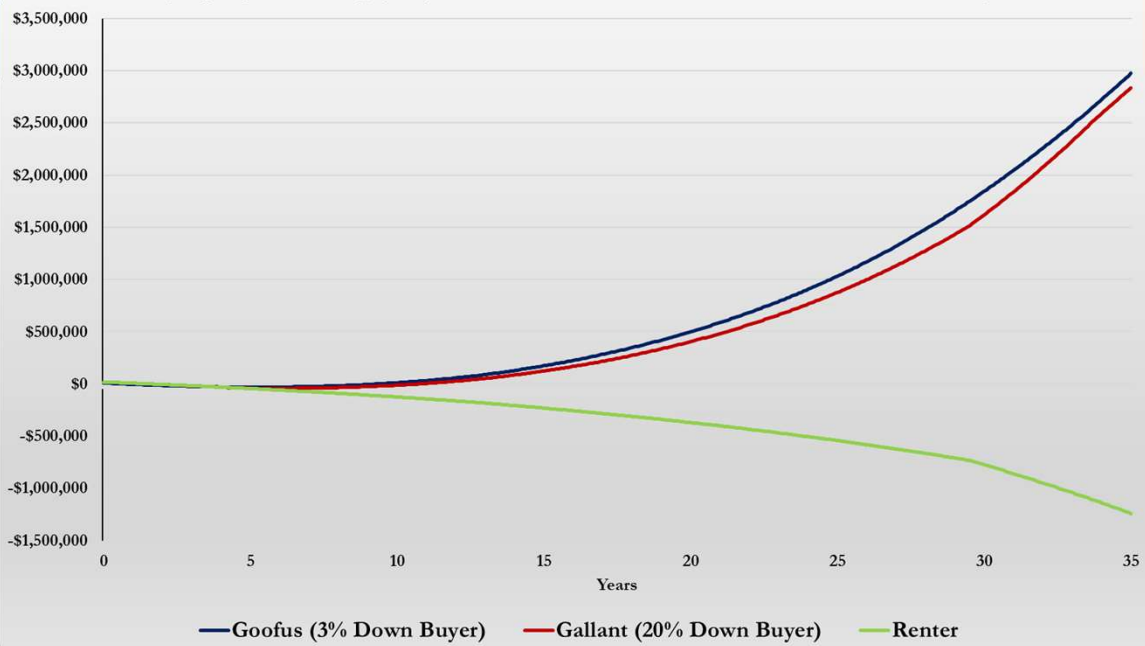
3%

**35 Years - Net Wealth Difference in Waiting to Save 20%**  
(Equity + Savings) - (Interest, Taxes, Insurance, and Maintenance)



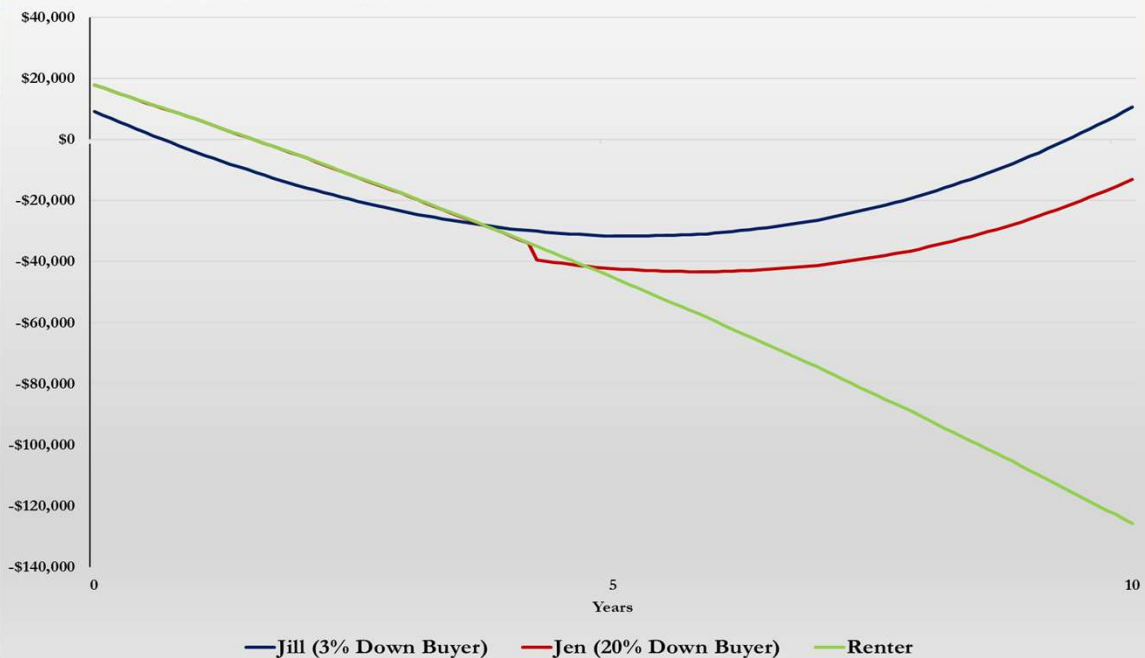
3%

### 35 Years - Net Wealth Difference in Waiting to Save 20% (Equity + Savings) - (Interest, Taxes, Insurance, and Maintenance)



3%

### 10 Years - Net Wealth Difference in Waiting to Save 20% (Equity + Savings) - (Interest, Taxes, Insurance, and Maintenance)



# Should We Trust The News?

## The New York Times

### *Rent or Buy?*

We explain the state of the housing market.

## THE WALL STREET JOURNAL

FINANCE

### The Math for Buying a Home No Longer Works. These Charts Show You Why.

What does it take to buy a home in the U.S.? A lot more than it did before the Federal Reserve raised interest rates

People who are writing these articles are **NOT** real estate professionals

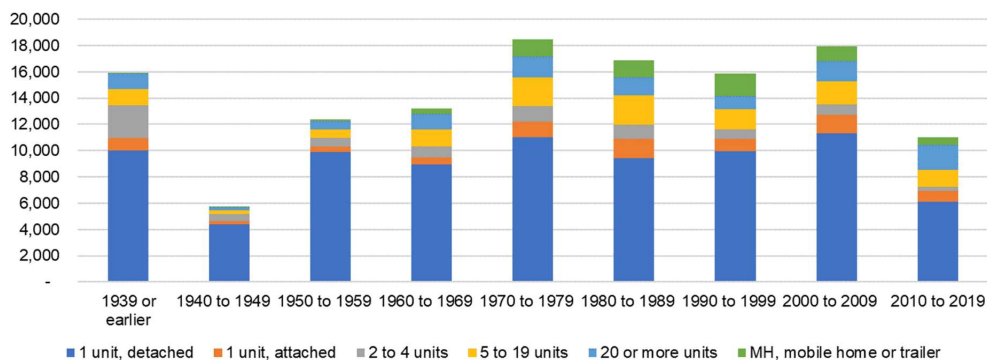
They are treating housing like the stock market – you can't sleep inside your stock portfolio

You're not avoiding the cost of buying a home by renting

# “I want to wait for the market to calm down”

## Structural Undersupply of Housing

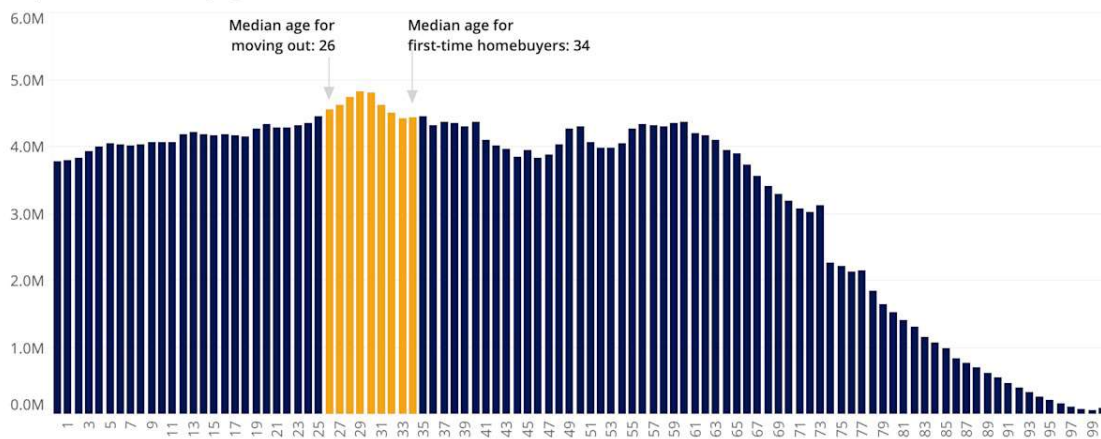
Chart of the Week - October 7, 2022  
2021 Housing Stock - Occupied Units by Year Built and Building Type  
(Thousands)



Source: Census Bureau, Department of Housing and Urban Development

# “I want to wait for the market to calm down”

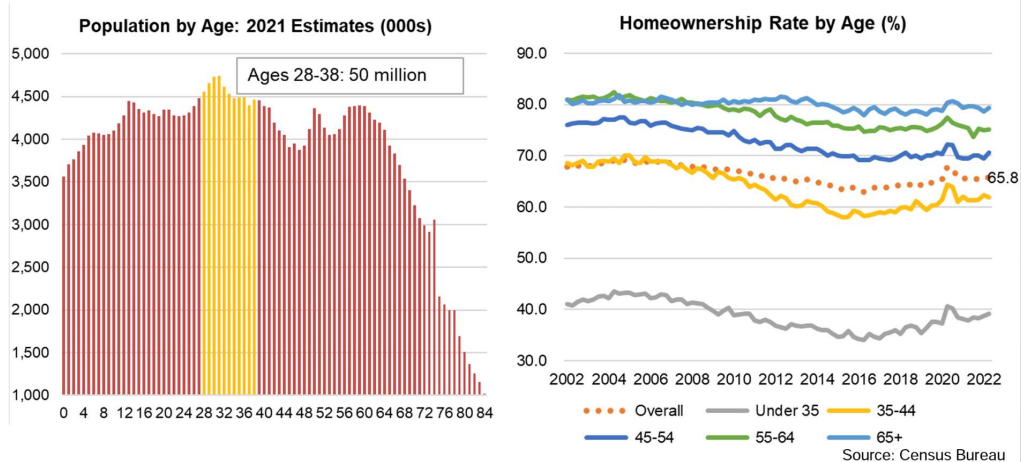
Millions of potential home buyers will age into their prime home buying age in coming years  
Population Estimates by Age



Source: National Population Estimates, U.S. Census Bureau, Population Division, June 2020.

# “I want to wait for the market to calm down”

## Demographic Support for Home Purchases



# “I Don’t Want to Buy in a Bubble”

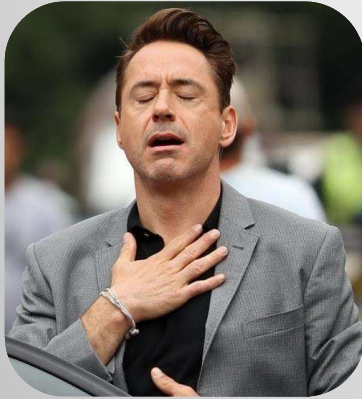
		Total Return 2	Total Return 3	Total Return 4	Total Return 5
Median		8.23%	13.50%	20.97%	25.06%
Min:		-12.98%	-17.78%	-20.33%	-19.11%
Date of Min:		1/1/2010	10/1/2011	4/1/2011	4/1/2012
80%		1.72%	3.63%	5.01%	7.96%
Max:		43.92%	57.34%	74.11%	90.47%
Date of Max:		10/1/2022	10/1/2022	4/1/2022	4/1/2022
		2 Years Total	3 Years Total	4 Years Total	5 Years Total
		\$541,169	\$567,517	\$604,867	\$625,316
		\$435,077	\$411,104	\$398,340	\$404,446
		\$508,590	\$518,148	\$525,033	\$539,786
		\$719,576	\$786,709	\$870,538	\$952,345
		2 Years Total Rent	3 Years Total Rent	4 Years Total Rent	5 Years Total Rent
Monthly Rent	\$2,950	\$72,039	\$109,960	\$149,209	\$189,831
Annual Increase	3.5%				

# “I Don’t Want to Buy in a Bubble”

		Total Return 6	Total Return 7	Total Return 8	Total Return 9	Total Return 10
Median		30.24%	33.60%	39.65%	46.54%	52.17%
Min:		-13.17%	-7.51%	-2.76%	4.27%	12.54%
Date of Min:		1/1/2013	7/1/2014	4/1/2015	4/1/2016	1/1/2017
80%		7.39%	9.72%	15.25%	19.46%	22.61%
Max:		107.34%	122.32%	133.45%	148.06%	167.26%
Date of Max:		4/1/2022	4/1/2022	4/1/2022	4/1/2022	4/1/2022
		6 Years Total	7 Years Total	8 Years Total	9 Years Total	10 Years Total
		\$651,218	\$668,010	\$698,227	\$732,711	\$760,866
		\$434,149	\$462,430	\$486,205	\$521,338	\$562,689
		\$536,963	\$548,601	\$576,241	\$597,318	\$613,042
		\$1,036,693	\$1,111,604	\$1,167,270	\$1,240,322	\$1,336,315
		6 Years Total Rent	7 Years Total Rent	8 Years Total Rent	9 Years Total Rent	10 Years Total Rent
Monthly Rent	\$2,950	\$231,875	\$275,391	\$320,430	\$367,045	\$415,291
Annual Increase	3.5%					



# Rates Go Up?



1. You locked in a lower rate!
2. Inflation is still not under control.  
(Rent is on its way UP!)
3. You've locked in your *biggest inflation-risk expense*.\*

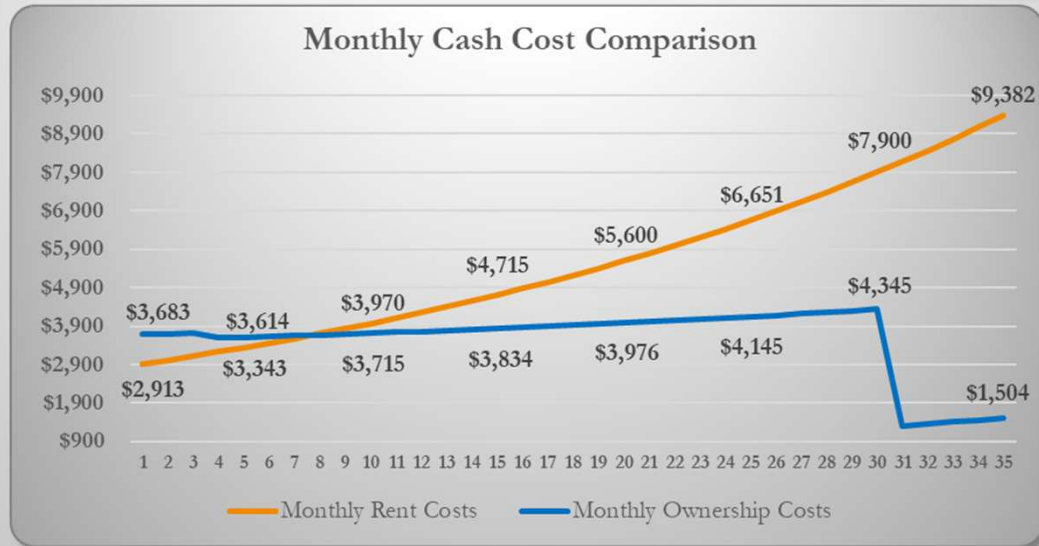
\* Shelter is 44% of the CPI – single largest category!

# Rates Go Down?

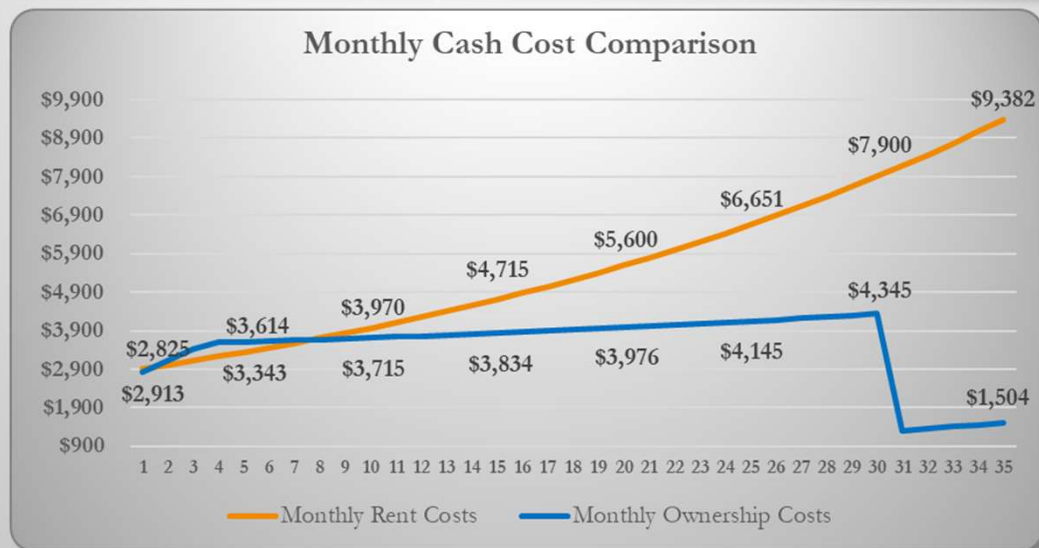


1. Reduce monthly payment.
2. Reduce duration.
3. Combination of both.

# No Rate Buydown



# 3-2-1 Buydown



# Thank You!

Scan for my contact info:



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