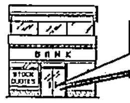
Buy a house or rent one: A cash flow comparison

Renter

Income	$46,000
Average monthly rent	$664
Available to invest in lieu of down payment	$15,000
Difference saved by renting	+ $720
	$15,720
Interest earned	$1,368
Total taxable income	$34,568
Federal tax - rental	$5,814
Less investment interest	- $1,368
Effective rental tax consequence	$4,446

Owner

Income	$46,000
Average monthly payment	$724
Homeowner deductions	$10,470
Taxable income	$27,730
Federal tax	$4,159



Renting vs. buying: a cash flow anaylsis

By Doug Funke
staff writer

Do homeowners actually make out substantially better than renters on a cash-flow basis given deductions for ownership on federal income tax returns?

Let's examine a strictly hypothetical case.

It's hypothetical — and flawed — in the sense that only deductions for mortgage interest, real estate property taxes and state income taxes will be considered in this exercise.

Keep in mind, too, that every situation is different and exact comparisons can't be made.

Family A buys a $75,000 house — the average market value of houses sold by Century 21 in metropolitan Detroit in March.

Assume a 30-year mortgage at 10/2 percent — a ballpark average for the metro area through the first eight months of this year projected by Steve Conaway, president of Residential Mortgage Consultants of Northville.

Assume a joint tax filing with four exemptions and an income of $46,000 — the average per household indicated on Michigan tax returns last year, according to the state treasury department.

Assume a property tax rate of $59.45 per $1,000 of state equalized valuation (half of market value) — an average for Rochester, Birmingham, Farmington Hills, Garden City and Canton.

Assume that the house is properly assessed.

GIVEN THOSE conditions, and assuming no deductions other than mortgage interest, property taxes and state income taxes, the homeowner would have a federal tax liability for the year of about $4,159 using 1988 married-joint rates.

Family B rents a two-bedroom apartment for $664 per month — an average for the Citation Club in Farmington Hills, Hampton Court in Westland, Carriage Cove in Canton and Whethersfield in Birmingham.

The renter with four exemptions and the $5,000 standard deduction would face a federal tax liability of about $5,436.

So it does pay more to own than rent?

Not so fast.

The homeowner paid $8,688 in principal, interest and taxes to live in the house for a year.

The renter paid $7,968 to lease.

That means the renter had $720 more in disposable income for the year than the homeowner.

BUT THAT'S not all. Remember, the homeowner had to put down 20 percent or $15,000 to get a mortgage. The renter, presumably, can invest the $15,000 as he or she pleases in other ways.

Financial Daily Income money market fund has averaged about 8.7 percent through the first eight months of this year.

The renter would garner about $1,368 in interest income over a year assuming that rate and a simple interest calculation.

That additional interest would boost the renter's federal income tax by some $378 to $5,814.

Now let's look at the bottom line.

The homeowner's federal tax liability is about $4,159. The renter's federal tax liability is about $5,814. That difference is $1,655. But the renter had an additional $1,368 in disposable income through interest.

The final result — the homeowner has a better cash flow by $287 for the year.

The cash-flow difference in this hypothetical case is less than 1 percent of adjusted gross income.

Granted, capital appreciation can make a big difference over time in favor of the homeowner's balance sheet. And every case is different.

But maybe preference in lifestyle should count just as much as economics in the decision to rent or buy, in the short haul.

Lifestyle plus economics

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area and was out of the way but not in the hinterlands," he said.

Investment potential wasn't really a big factor in the decision to buy, Gansler said.

"Everything came ahead of that," he said. "I love to fish. I can walk to the end of my property and just start fishing."

Gansler isn't totally unaware of the investment potential.

"Everyone that has come over here, that's the first thing out of their mouth, 'This was a smart investment. Lake property can't do anything except go up'," he said.

"I think that's great if that really happens. I'm enjoying it too much to think about that side of it now," Gansler said.

THE GILBERTS decided to buy into a new subdivision in Redford *nearly four decades ago basically* because it was close to Walter's job in Detroit.

They had a place on Wolverine Lake, but roads weren't then like they are now.

Houses in that subdivision now sell in the mid to upper $40,000 range.

Homearama closes

By Doug Funke
staff writer

At least four of the 10 models at this year's Homearama in Oakland Township sold during the month-long run of the show, organizers said.

But that isn't the main reason the Builders Association of Southeastern Michigan sponsored the extravaganza for the seventh-consecutive year.

"We put on Homearama, of course, to show new housing, but to demonstrate the quality of builders in general," said Homearama chairman Dennis P. Dickstein, chairman and chief executive officer at Ralph Manuel Realtors.

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The Meadowbrook, at $585,000 was one of four Homearama homes sold during the month-long showcase of homes.