

“Home Sales Fell Again in April After High Mortgage Rates Damped Activity”



The Wall Street Journal - Nicole Friedman

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Think about this

Which option do you think is good—Renting a Home or Buying a Home?

INTRODUCTION: What are your thoughts?

In the current market scenario, the Mortgage rates are touching 7-8%, giving us an all-time high in the past 20 years. The markets are facing low-inventory levels with only 3.5 months of supply, thus showing us signs of an imbalanced market.





Is there a good alternate investment opportunity with your money ?

Well, on the other hand, the gauge of the large cap equities market, S & P 500 provides an opportunity to invest with an average rate of return of around 8%. (experian.com)

Amortized Loan: \$200,000. Downpayment : \$50,000

Case:1

Mortgage Payment = \$1,800

Interest Rate = 7%

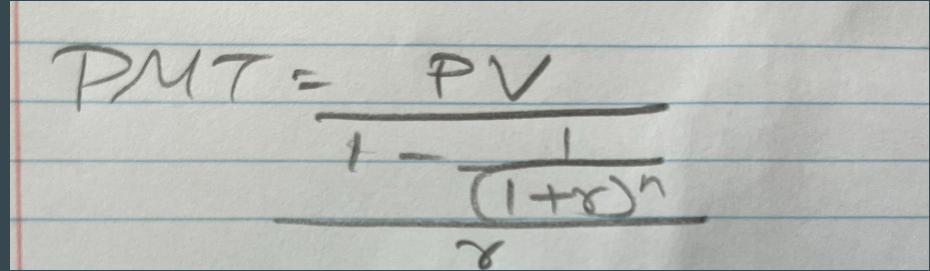
Loan Tenure = 15 years

Total Mortgage Paid in 15 years = \$324,000

Average Property Tax in Illinois = 2.08% which becomes

15 Years cost on property Tax = \$78,000

Total Spent after 15 years = \$402,000



A photograph of a piece of lined paper with a handwritten formula for the periodic payment (PMT) of an amortized loan. The formula is written as:
$$PMT = \frac{PV}{1 - \frac{1}{(1+r)^n}}$$
 where 'PMT' is the periodic payment, 'PV' is the present value, 'r' is the interest rate, and 'n' is the number of periods.

Investing in S&P 500 (10% in last 15 years)

Case: 2

Average rent in Illinois: \$1800

Money Spent on Rent : **\$324,000**

$$FV = PMT \times \frac{(1+r)^n - 1}{r}$$

Case: 3

Investing \$5200 of property tax which values **\$ 165,216**

Opportunity cost of investing \$50,000

Total Value after 15 years **\$208,862**

$$FV = PV \times (1+r)^n$$

Total Investment of \$ 5200/month + \$50,000 = **\$374,000**

Buying

Spending \$402,000 with Property in Hand

Rent

After spending \$324,000 on rent which is \$76,000 less than buying a home and the value of money after Investing will become \$374,000 in Hand.

Conclusion

Which option do you think is better now—

Renting a Home or **Buying a Home** ?

Answer

Yes, you're correct.

Renting a Home will earn you **\$450,000** at the end of **15** years (by investing into S&P 500).

REAL ESTATE VS S&P 500 TOTAL RETURN



THANK YOU

QUESTIONS?