

Market Studies and Consulting

AN ECONOMIC PERSPECTIVE ON WEALTH CREATION via RENTAL HOUSING vs. HOME OWNERSHIP (In the Southeastern United States.)

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Executive Summary

The Problem:

The decision to either rent housing or purchase housing and the financial implications of each option are common discussions within households across the United States. The majority of these discussions are often one-or two-dimensional in nature, whereby differences in monthly housing payments, the potential accumulation of home equity, initial cash outflows, etc. are considered, compared, and weighed. Instead of simply examining the initial layers of broad housing variables, renters and homeowners alike would be better served by more thoroughly comparing the long-term costs of available housing options. Additionally, consideration of probable financial returns from owning a home vs. renting and investing in other available equity investments over the same occupancy period could provide deeper insights as to which housing option is the best overall financial choice.

Proposed Solution:

Brad Hunter, Founder & President of Hunter Housing Economics and Robert Hancock, Senior Economic & Financial Analyst took a much closer look at comparing the total costs of renting vs. home ownership over a long-term occupancy period. Historical home ownership appreciation rates and alternative equity investments were considered along with current housing market variables, current rental market variables, and highly probable upcoming shifts in home prices. Once the data was fully assembled and synthesized it was applied to a common housing decision faced by many considering whether to rent or purchase a home.

Findings:

Our findings suggest owning a home is not always the most viable long-term financial option for many potential or existing homeowners. The primary reasons are the large initial cash outflows required when purchasing a home, the periodic payments of homeowner's insurance premiums and property taxes, as well as recurring maintenance costs. In this report we illustrate this concept with an example case showing how renters can be better off financially in many instances if they choose to rent and simultaneously invest over a 10-year timeframe. The results of our findings were that renters who choose to simultaneously invest in a liquid, non-fixed, equity investment asset could be better off financially to the tune of **approximately \$31,000 in future dollars**.

The Decision – Buy or Rent

When renters think about the decision to rent or buy housing, many are either not aware of, or tend to forget, the non-recoverable costs involved in purchasing, owning, and selling a home. Renters also tend to forget about the time, energy, and expenses (expected & unexpected) homeowners incur maintaining and keeping their home in good repair relative to paying rent.

Hunter Housing Economics wanted to test the argument for home ownership and the math behind it to determine whether similar, less, or greater wealth generation is possible by renting and investing in an alternate equity investment for the same occupancy period. To this end, we utilize an **example case of a married couple who have accumulated the amount of personal savings needed to purchase a modestly priced single-family residence as their first home.** We consider the total housing costs the couple should expect by either choosing to rent or purchase a similar home and the probable investment returns achievable on a single-family home vs. an alternative equity investment over the same 10-year occupancy period.

In addition, this report also explores the dynamics when different assumptions are utilized about future rental housing & home ownership projections and what the results of those assumptions are.



Example Case

A recently married couple residing in the southeastern U.S. has been working with a financial advisor and a local Realtor for more than a year to accumulate the funds needed to purchase their first home. They intend to have children in the next few years and want to purchase a home they can 'grow into'. Their financial advisor calls to schedule their next appointment and inquires how close they are to reaching their savings goal to purchase a home. Their savings goal was established as **\$30,456** by their lender as follows based upon a maximum purchase price as **\$356,000**:

<u>Components</u>	<u>\$ Amount</u>	<u>% of Price</u>
Downpayment	\$17,800	5.00%
Closing Costs	\$8,436	2.37%
Prepaid Expenses	\$2,673	.75%
Initial Escrows	<u>\$1,547</u>	<u>.43%</u>
Total Savings Goal	\$30,456	8.56%

The couple happily informs the financial advisor they successfully reached the savings goal over the past few weeks. Their financial advisor congratulates them on reaching the goal and mentions she has an idea for them to think about between now and their next appointment. She asks if they would consider renting a larger rental home which could offer more room to 'grow into'. She explains they could rent a similar sized home to the one they want to purchase for around \$500 per month less than buying and they would not need to worry about the burdens and additional costs of home maintenance, property taxes, or homeowner's insurance. The couple responds they have not considered continuing to rent because they want to start building wealth by owning a home and do not want to pay someone else's housing expenses for them. The financial advisor reminded the couple they have already been able to build wealth while renting and suggests they discuss the possibility at their next meeting. The couple begins to wonder about the possibility of continuing to rent and what that would mean for them financially over the long term versus purchasing a home.

HOUSING ECONOMICS

Costs of Home Ownership vs. Costs of Renting

As previously stated, the costs of housing between two or more potential residences are frequently compared based upon simple differences in monthly housing payments, the amount of forecasted home equity which might be attained, and the initial cash outflows needed to purchase a home. Comparisons made at these surface levels are inherently flawed as they assume current rental prices, variable portions of home ownership payments, and home maintenance costs remain stable in perpetuity going forward. Whether owned by an individual homeowner or a commercial landlord, the costs of owning improved real estate generally tends to increase over time. Buildings age and require increasing maintenance and repair; insurance premiums increase with the age of structures as building codes change and improvements are made in building materials; and property taxes increase over time due to appreciation of real estate values in the surrounding area. These aggregated increases must be paid by property owners at the time they occur whereas renters are able to defer the proportional increases allocated to their rental unit at the time of their next lease renewal.

In our comparison of the costs of home ownership vs. the costs of renting housing we included the following housing costs components & variables for each option within our proprietary financial model.

Costs of Home Ownership

Purchase Outflows Principal & Interest Property Taxes (2% increase per year) Homeowner's Insurance (2% increase per year) Private Mortgage Insurance (1% of Ioan amount) Lawn Maintenance (5% increase every 3 years) Pest Control (5% increase every 3 years) Repairs & Maintenance (3.0% increase per year)

Costs of Rental Housing

Monthly Base Rent Landscape Fee Renter's Insurance Policy



Notes:

- In this simulation, we did not include community owners' associations (HOA, POA, COA, etc.) dues in our housing costs calculations as these costs are incurred in some communities and not others. Any cost of home ownership or rental housing would be expected to increase if a community owners association were present.
- We did not imply any potential homebuilder incentives (rate buydowns, closing cost credits, etc.) in our calculations which are frequently utilized to attract potential home buyers to newly constructed homes. These incentives vary by region, homebuilder, and market activity, and the majority of people who are weighing renting versus buying are not buying a new home from a builder. In instances when a potential homebuyer is considering purchasing a new home from a builder, these incentives would be expected to decrease the initial cash outflow requirements, interest rate, or other cost for the homeowner, thereby reducing the total cost of home ownership in comparison to renting.
- To derive the monthly base rent utilizing in the proprietary financial model HHE contacted Quinn Residences, a leading developer/operator of single-family rental home communities across much of the southeastern U.S. Quinn Residences was able to provide an approximate average monthly rent for single family homes across several states in the southeastern U.S. based upon their ongoing research in many southeastern markets.

Home Ownership Costs:

The following variables are applicable to the total costs of home ownership across the projected 10-year occupancy period.

Home Purchase Outflows:		Home Purchase Var	iables:	Home Ownership Variables:			
Down Payment \$	\$17,800	Purchase Price	\$356,000	Property Tax increase (yearly)	2.0%		
Lender & Title Fees	\$8,436	Down Payment %	5.0%	HOI increase (yearly)	2.0%		
Total Estimated Prepaids	\$2,673	Down Payment \$	\$17,800	PMI (% of Loan) to 75% LTV	1.0%		
Initial Escrows	\$1,547	Loan Amount	\$338,200	Lawn Care increase (3 yrs)	5.0%		
Total Other Costs / Fees	\$0	Note Rate	7.25%	R&M increase (yearly)	3.00%		
Purchase Outflows	\$30,456	Loan Term (months)	360				



The periodic increases in home ownership variables (property tax, homeowner's insurance (HOI), private mortgage insurance (PMI), lawn care, as well as repairs & maintenance (R&M)) are factored into the financial model to account for long-term inflationary adjustments. Historical price increases in these variables are why we include allowances for periodic elevation in certain housing cost components in our proprietary model.

					Yea	ars of Occup	<u>ancy</u>				
Housing Payment Outflows:	1	2	3	4	5	6	7	8	9	10	Ending Value
Beginning Mortgage Balance	\$338,200	\$334,927	\$331,408	\$327,626	\$323,560	\$319,189	\$314,491	\$309,440	\$304,011	\$298,175	\$291,902
Principal Repayments	\$3,273	\$3,519	\$3,782	\$4,066	\$4,371	\$4,698	\$5,051	\$5,429	\$5,836	\$6,273	\$46,298
Interest Payments	\$24,412	\$24,167	\$23,903	\$23,620	\$23,315	\$22,987	\$22,635	\$22,256	\$21,849	\$21,412	\$230,556
Total P&I Payments	\$27,685	\$27,685	\$27,685	\$27,685	\$27,685	\$27,685	\$27,685	\$27,685	\$27,685	\$27,685	\$276,854
PMI (Terminated at 75%)	\$3,382	\$3,349	\$3,314	\$3,276							\$13,322
Property Taxes	\$2,333	\$2,856	\$2,913	\$2,971	\$3,031	\$3,091	\$3,153	\$3,216	\$3,281	\$3,346	\$30,193
Homeowner's Insurance		\$2,726	\$2,781	\$2,837	\$2,893	\$2,951	\$3,010	\$3,070	\$3,132	\$3,194	\$26,595
Housing Payments	\$33,401	\$36,617	\$36,694	\$36,770	\$33,610	\$33,728	\$33,849	\$33,972	\$34,098	\$34,226	\$346,964
Home Maintenance Outflows:	1	2	3	4	5	6	7	8	9	10	Ending Value
Lawn Care	\$1,200	\$1,200	\$1,200	\$1,260	\$1,260	\$1,260	\$1,323	\$1,323	\$1,323	\$1,389	\$12,738
Pest Control	\$200	\$200	\$200	\$210	\$210	\$210	\$221	\$221	\$221	\$232	\$2,123
Repairs/Maintenance (R&M)	\$1,843	\$1,899	\$1,956	\$2,014	\$2,075	\$2,137	\$2,201	\$2,267	\$2,335	\$2,405	\$21,131
Total Home Maintenance Costs	\$3,243	\$3,299	\$3,356	\$3,484	\$3,545	\$3,607	\$3,745	\$3,811	\$3,879	\$4,026	\$35,993
Total Maintenance as % of Home Value	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%	7.1%
Total Costs of Homeownership	\$67,100	\$39,916	\$40,049	\$40,254	\$37,154	\$37,335	\$37,593	\$37,783	\$37,976	\$38,252	\$413,412

• Homeowner's Insurance in Year 1 is included in total estimated prepaids within home purchase outflows.

As reflected in the table above, the first year of occupancy is especially burdensome for those who choose to purchase housing as large cash outflows are required for the downpayment, prepaid expenses, closing costs, and the initial funding of escrow accounts. As referenced above, the required cash outflows to purchase the home total **\$30,456**. In addition, homeowners in the example would also have required periodic housing payments of **\$33,401** (PITI) and estimated home maintenance costs of **\$3,243** to incur during the first year of ownership. In total, the costs of home ownership during Year 1 would be **\$67,100** (**\$30,456 + \$33,401 + \$3,243**). Over the course of the 10-year occupancy period the total costs of home ownership would equal **\$413,412**, or an average of **\$41,341** per year.

HOUSING

Home Price Appreciation (HPA):

According to the S&P CoreLogic Home Price Index values for the states of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, & Tennessee, the combined average annual home price increase from 1Q 1975 – 3Q 2024 was **4.5%**. Population growth surges across the southeastern U.S. in the most recent 10-year period (2014 – 2024), largely due to the COVID-19 pandemic, generated substantially higher HPA rates than in prior years. We do not expect future population growth in the southeastern region to occur at the same rate over the next several years. The recent outsized gains in home values have pushed prices to a point at which continued increases will be much lower than historically. For this reason, and in combination with the expectation that mortgage rates will continue to limit HPA relative to the prior 10-year period, we have chosen to model an average HPA rate of **3.5%** for the 10-year occupancy period, which is closer to the consensus forecast of economists today.

One of the perceived advantages of purchasing a home versus renting a home is that a large portion of the housing payment (principal & interest) can be fixed and not subject to periodic increases which might diminish any HPA. This is of course assuming homebuyers utilize fixed rate mortgage loans instead of adjustable-rate mortgages. Most home purchases in the U.S. have historically been accomplished via fixed-rate mortgages. However, having fixed principal & interest payments does not preclude subsequent increases in homeowners' insurance premiums, property taxes, and maintenance costs from altering the forecasted cost of home ownership, thereby reducing HPA.

A distinct advantage of home ownership under the current U.S. tax laws is the capital gains tax exclusion on capital gains realized on the sale of primary residences. Currently, the exclusion levels are up to \$250,000 for single income tax filers and up to \$500,000 for married filing jointly income tax filers according to the IRS' Topic 701. This tax exclusion allows for tax free gains on the sale of a primary residence up to the maximum exclusion amount and can have a significant impact in favor of purchasing a home when households are considering the decision of renting vs. owning.

The table below shows results of our analysis regarding the potential home equity generation capacity in the example case over the 10-year occupancy period.

HOUSING ECONOMICS

Home Price Appreciation

Home Price Appreciation %	3.5	5%									
-		Homeownership Period									
Home Price Appreciation:	1	2	3	4	5	6	7	8	9	10	Ending Value
Beginning Year Home Value	\$356,000	\$368,662	\$381,774	\$395,353	\$409,414	\$423,976	\$439,055	\$454,671	\$470,842	\$487,589	\$504,931
HPA % rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.50%
(+) HPA (3.5% per year)	\$12,662	\$13,112	\$13,579	\$14,061	\$14,562	\$15,080	\$15,616	\$16,171	\$16,746	\$17,342	-
Year End Market Value	\$368,662	\$381,774	\$395,353	\$409,414	\$423,976	\$439,055	\$454,671	\$470,842	\$487,589	\$504,931	-
(-) Remaining Mortgage Balance	\$334,927	\$331,408	\$327,626	\$323,560	\$319,189	\$314,491	\$309,440	\$304,011	\$298,175	\$291,902	\$291,902
Gross Equity	\$33,735	\$50,366	\$67,727	\$85,854	\$104,787	\$124,564	\$145,231	\$166,831	\$189,414	\$213,029	\$213,029

The value of the home appreciates from **\$356,000** in **Year 1** to **\$504,931** at the end of **Year 10** producing total HPA of **\$148,931**. Th amount of HPA paired with the gradual amortization of the outstanding loan balance are the combining forces which create total gross home equity of **\$213,029** at the end of Year 10.

	<u>Beginning</u>	<u>Ending</u>
Home Value	\$356,000	\$504,931
(-) Loan Balance	<u>\$338,200</u>	<u>\$291,902</u>
Gross Home Equity	\$17,800	\$213,902

Projections of potential/available home equity are often an area of focus for those households considering the rent vs. ownership decision. These projections are often contemplated in the context of the following simplistic equation.

Implied Gross Equity Return = Gross Home Equity / Initial Home Value = \$213,902/\$356,000 = 59.84%

The reason this equation is simplistic is because the calculation ignores the impacts to HPA from the required upfront cash outflows, carrying costs, and transaction fees incurred to realize home equity.





The graphs below illustrate how home equity accumulation is often conceptualized in this context.



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Those considering a rent vs. ownership decision often ignore the fact that extracting equity contained within their home requires incurring considerable transaction costs to sell the real estate asset. Often the impact of transaction costs on projections of home equity and projected investment returns from owning a home are also ignored.

In the example case, we have assumed total transaction costs equal to 5% of the home's value each year. These transaction costs are a combination of 4% allocated for realtor fees and 1% allocated for closing costs (Transfer taxes, recording charges, etc.). The transaction fees are then subtracted from '**Gross Equity'** to produce '**Net Equity**' available to homeowners upon the closing sale of the property.



Net Equity is an approximate of the net dollar return homeowners may receive from HPA over the occupancy period.



Rental Housing Costs:

Similar to the initial year of home ownership, the cost of rental housing during the first year is typically elevated due to the required payment of initial fees and deposits. Based on data on home rental prices in the southeastern U.S., we generated the following variables applicable to total rental housing costs over the projected 10-year occupancy period.

Initial Fees: Contract Rent Variables:							Rental Housing Variables					
Application Fee (2)	\$200	C	_	Monthl	y Base Rent	: \$	2,160	Contract Rent increase (3 yrs)			10%	
Adminstrative Fee	\$300	C	(+) Landscaping Fee			е	\$30	Renter's Insurance increase (3 yrs)			rs) 5%	
Pet Fee	\$300	C	Monthly Contract Rent				2,190					
Security Deposit (1x rent)	\$2,16	50	(+) Renter's Insurance				\$29					
Total Initial Fees	\$2,96	50	Monthly Rental Costs			sts \$	2,219					
						Years of	<u>Occupancy</u>					
Rental Housing O	utflows:	1	2	3	4	5	6	7	8	9	10	Ending Value
In	nitial Fees	\$2,960									(\$2,160)	\$800
Contract Rent (10% increase every	/ 3 years)	\$26,280	\$26,280	\$26,280	\$28,908	\$28,908	\$28,908	\$31,799	\$31,799	\$31,799	\$34,979	\$295,939
Renter's Insurance (5% every	/ 3 years)	years) \$350 \$350 \$350 \$368 \$				\$368	\$368	\$386	\$386	\$386	\$405	\$3,715
Costs of Renting \$29,590 \$26,630 \$26,630 \$29,276 \$29,276 \$29,276					\$29,276	\$32,185	\$32,185	\$32,185	\$33,224	\$300,454		

Costs of Rental Housing (SFD)

Initial cash outflows of **\$2,960** in the first year are assumed including a security deposit of **\$2,160** (1x base rent) and associated fees of **\$800**. We also assume the security deposit of **\$2,160** will be refunded to the renters upon the end of Year 10. In the example case above, the renters/investors would incur **\$300,454** in total rental housing costs over the 10-year occupancy period.

Housing Cost Comparison:

The summary comparison table and graph of comparative costs of rental housing vs. home ownership below reflects a clear advantage in favor of renting housing during the occupancy period by **\$112,958**. This represents 37.6% less housing costs over the same 10-year occupancy period.

Years of Occupancy												
	1	2	3	4	5	6	7	8	9	10	Totals	
Costs of Homeownership	\$67,100	\$39,916	\$40,049	\$40,254	\$37,154	\$37,335	\$37,593	\$37,783	\$37,976	\$38,252	\$413,412	
Costs of Rental Housing	\$29,590	\$26,630	\$26,630	\$29,276	\$29,276	\$29,276	\$32,185	\$32,185	\$32,185	\$33,224	\$300,454	
Rental Housing - Benefit	\$37,510	\$13,286	\$13,419	\$10,978	\$7,879	\$8,059	\$5,409	\$5,598	\$5,792	\$5,028	\$112,958	
% Costs Difference	126.8%	49.9%	50.4%	37.5%	26.9%	27.5%	16.8%	17.4%	18.0%	15.1%	37.6%	





Most notably, the potential cost savings of renting vs. ownership in Year 1 is **\$37,510** provides renters/investors with a substantial balance upon which to build wealth via alternative equity investments.



Invest the Housing Costs Difference:

If renter households can anticipate spending almost \$113,000 less on housing over a 10-year period and their intention is to accumulate wealth, an appropriate investment vehicle would need to be selected to accomplish their goal. Finding and selecting an investment vehicle for this intention should be completed with the assistance of a licensed and qualified financial advisor to consider renters' respective risk profiles, investment profile, and current financial circumstances in the selection process.

There are a multitude of equity investments available for renters/investors to choose from. The example case involves a married first-time homebuyer couple whose intended purpose is to create wealth over a 10-year occupancy period. To accomplish the renters' goal of wealth creation, an S&P 500 index fund was selected assuming such an index fund would be deemed an appropriate investment vehicle. The reasons why an S&P 500 index fund was chosen are as follows:

- 1. The primary focus of index funds is to mirror the proportional holdings of the underlying index and thus realize very similar returns.
- 2. The S&P 500 index is widely regarded as a proxy for the U.S. equity markets because companies must be domiciled within the U.S to be eligible for inclusion in the index.
- 3. S&P 500 index funds are some of the most widely traded funds in the world and therefore maintain consistently high levels of liquidity.
- 4. Transaction fees on index funds are negligible to investors' total returns.

Since the S&P began reporting index returns in 1926, annual returns have averaged between 10% - 12% depending upon whether dividend reinvestments are included or excluded. In the example case the periodic returns for the S&P 500 index realized from 2014 – 2024, excluding dividends, were utilized and yielded an average annual return of 10.89%.

The table & chart below clearly demonstrate how the large initial investment account deposit in Year 1 from the renters' accumulated savings for a home purchase and the compounding of returns over the occupancy period has the ability to create over **\$240,000** in pre-tax investment gains from renting & investing. This wealth accumulation occurs even while the index experiences three years of negative returns in Years 1, 4, & 8.



				Invest the Ho	ousing Cost D	ifference					
Investment Vehicle	S&P 500 I	Index Fund									
Tax Filing Status	Married F	iling Jointly									
	15.	00%									
Effective Capital Gains Tax Rate	8.5	8%									
				Ho	lding Period						1
Potential Investment Balance:	1	2	3	4	5	6	7	8	9	10	Ending Value
Rental Housing - Benefit	\$37,510	\$13,286	\$13,419	\$10,978	\$7,879	\$8,059	\$5,409	\$5,598	\$5,792	\$5,028	\$112,958
S&P 500 (Nominal Annual % return)	-0.43%	12.12%	15.03%	-6.62%	25.13%	19.45%	20.34%	-20.36%	22.78%	21.08%	10.9%
Beginning Investment Balance	\$28,296	\$37,062	\$56,056	\$79,672	\$83,519	\$114,953	\$143,994	\$181,330	\$149,333	\$191,896	\$240,848
Avg. Monthly Deposits	\$834.51	\$1,107.14	\$1,118.26	\$914.86	\$656.56	\$671.62	\$450.72	\$466.50	\$482.64	\$419.00	\$712.18
Ending Pre-Tax Investment Balance	\$37,062	\$56,056	\$79,672	\$83,519	\$114,953	\$143,994	\$181,330	\$149,333	\$191,896	\$240,848	\$240,848
(-) Long-Term Capital Gains Tax											\$21,622

Net After Tax Investment Balance \$219,226





As previously mentioned, the potential for dividend payments was not factored into the investment return calculations for the S&P index fund. The reason dividend payments were excluded from consideration is because their presence would introduce impacts from federal short-term capital gains tax considerations as well as different state income tax laws and state income tax rates. These factors would cause wide variation in the after-tax dividend yield by state.

While the potential impact of short-term capital gain taxes was not considered in the investment return calculations, the potential impact of federal long-term capital gains taxes upon extinguishment of the investment account in Year 10 must be considered. In our model we assume all deposits into the investment account are on a pre-tax basis. Therefore, making the entire ending investment account balance subject to long-term capital gains tax. The capital gains tax liability is calculated per the Internal Revenue Service's (IRS) 2025 capital gains income and tax brackets as follows.

	2025 Capital Gains Tax Rates											
	Single	Filers	Head of H	lousehold	Married - Filing Jointly							
Tax Rate	Min \$	Max \$	Min \$	Max \$	Min \$	Max \$						
0.0%	\$0	\$48,350	\$0	\$64,750	\$0	\$96,700						
15.0%	\$48,351	\$533,400	\$64,751	\$566,700	\$96,701	\$600,050						
20.0%	\$533,401		\$566,701		\$600,051							

Total Long-Term Capital Gain	\$240,848
(-) Capital Gain Exclusion	<u>\$ 96,700</u>
Taxable Investment Gain	\$144,148
Marginal Capital Gains Tax Rate	<u> </u>
Long-Term Capital Gains Tax	\$ 21,622
Total Long-Term Capital Gain	\$240,848
(-) Long-Term Capital Gains Tax	<u>\$ 21,622</u>
Net After-Tax Investment Balance	\$219,226
Effective Capital Gains Tax Rate	8.98%

Conclusion

In this particular example, the difference in total housing costs before accounting for transaction costs is in favor of renting and investing by **\$27,819**. Taking into consideration the transaction costs of selling the home and the long-term capital gains tax liability from liquidating the investment account at the end of Year 10 increases **the after-tax advantage of renting vs. buying to the tune of <u>\$31,444</u>**. The table below reflects renting housing and investing in a widely held equity security such as an S&P 500 index fund can in fact produce greater wealth over time than owning a non-income producing single-family home

Conclusion Calculations												
Occupancy Period												
	1	2	3	4	5	6	7	8	9	10	Ending Value	
S&P 500 (Nominal % return)	-0.43%	12.12%	15.03%	-6.62%	25.13%	19.45%	20.34%	-20.36%	22.78%	21.08%	10.9%	
Pre-Tax Ending Investment Balance	\$37,062	\$56,056	\$79,672	\$83,519	\$114,953	\$143,994	\$181,330	\$149,333	\$191,896	\$240,848	\$240,848	
(-) Gross Home Equity	\$33,735	\$50,366	\$67,727	\$85,854	\$104,787	\$124,564	\$145,231	\$166,831	\$189,414	\$213,029	\$213,029	
Gross Rent + Investing Benefit	\$3,327	\$5,691	\$11,945	(\$2,335)	\$10,167	\$19,429	\$36,099	(\$17,498)	\$2,482	\$27,819	\$27,819	
Pre-Tax Ending Investment Balance	\$37,062	\$56,056	\$79,672	\$83,519	\$114,953	\$143,994	\$181,330	\$149,333	\$191,896	\$240,848	\$240,848	
(-) Long-Term Capital Gains Tax											\$21,622	
After-Tax Ending Investment Balance											\$219,226	
Ending Net Home Equity	\$15,302	\$31,277	\$47,959	\$65,384	\$83,588	\$102,612	\$122,497	\$143,289	\$165,034	\$187,783	\$187,783	
After-Tax Rent & Investing Benefit	\$21,760	\$24,779	\$31,713	\$18,136	\$31,366	\$41,382	\$58,832	\$6,044	\$26,861	\$53,066	\$31,444	

The conclusion of our investigation and analyses is that based upon historical HPA data across the southeastern U.S., current housing and rental market dynamics, and taking into consideration highly probable shifts in home prices, in many instances greater wealth can be created by renting housing for long-term periods and simultaneously investing the housing costs difference between renting and home ownership. While no one can predict the future of mortgage rates, the stock market, or home values with certainty, there are reasons to believe mortgage rates will remain in the 6.5% to 8.0% range for the next several years, homeowner's insurance premiums will continue higher, and HPA growth will be limited, suggesting the equation *could tip further* in favor of renting than owning in the foreseeable future.

Appendix - Sensitivity Analyses

To further explore the dynamics between renting housing & simultaneously investing vs. owning a home, we completed various sensitivity analyses utilizing our proprietary financial model. The tables below contain comparisons of different variables to determine at what points renting & investing over a long-term occupancy period could exceed the equity creating ability of home ownership. The situations **favorable to long-term rental housing are denoted in black type** and highlighted in blue while situations **favorable to home ownership are denoted in red type**. Each analysis below utilizes the example case above in generating the respective comparison.

Analysis #1 - HPA Rate vs. After-Tax Benefit:

The comparison below reflects how the Gross Equity, Transaction Costs, Net Equity, and After-Tax Benefit of Renting & Investing change as the HPA rate increases gradually from 3.00% - 5.50%, assuming all other variables are held constant.

	<u>HPA %</u>								
	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%			
Gross Equity	\$188,468	\$213,029	\$238,835	\$265,948	\$294,434	\$324,362			
Transaction Costs	\$24,018	\$25,247	\$26,537	\$27,892	\$29,317	\$30,813			
Net Equity	\$164,450	\$187,782	\$212,298	\$238,056	\$265,117	\$293,549			
After-Tax Rent & Investing Benefit	\$54,619	\$31,444	\$7,086	(\$18,512)	(\$45,414)	(\$73,685)			

HPA Rate vs. Rental Housing Benefit

The average HPA rate would need to increase above **4.19%** over the 10-year period to generate an after-tax return from home ownership which could outperform the wealth accumulated by renting & investing. The fact the HPA rate can be considerably lower than the 10.89% average return of the alternative S&P 500 index investment and produce similar total dollar returns may seem counter intuitive. The explanation lies in the mathematical nature of compounding returns.

Compounding Returns:

In the example case the HPA rate is applied to the home's initial value **(\$356,000)** which is more than 12 times the initial balance of the investment account **(\$28,296)**. The home appreciates 3.5% in Year 1 producing **\$12,662** in total HPA. The



investment account balance in Year 1 would need to achieve an annual return of 37.6% to generate the same dollar return provided by HPA. As the investment account balance continues to grow at higher average annual rates of return than HPA the ability of the S&P 500 index fund to generate similar total dollar returns to homeownership increases and ultimately exceeds the value of home equity, assuming an HPA of 3.5%. The average HPA rate over the 10-year occupancy period would only need to increase by **.69%** from 3.5% to 4.14% for the after-tax return from home ownership to match the after-tax benefit achieved by renting & investing.

Analysis #2 - Purchase Price vs. Interest Rates:

Among the most commonly considered variables in rent vs. ownership decisions are mortgage interest rates, as they directly affect monthly housing payments and can be readily compared. The blue shaded area in the table below reflects situations when renting housing for the long-term is financially advantageous to purchasing similar housing given the purchase price and interest rate ranges reflected. For instance, for renters pondering the purchase of a home for \$360,000 with a 5% downpayment and a mortgage loan with an interest rate of 6.00%, it would be more advantageous to purchase a home by **\$25,843**. If the mortgage loan in this scenario had a 7.00% interest rate instead, it would be more beneficial to rent instead of purchasing by **\$22,858**. Most economists expect these rates to stay well above 6.0%.

	Purchase Price vs. Interest Rate											
	Purchase Price											
		\$300,000	\$320,000	\$340,000	\$360,000	\$380,000	\$400,000	\$420,000	\$440,000	\$460,000	\$480,000	\$500,000
	5.00%	\$111,500	\$98,800	\$86,099	\$73,398	\$60,697	\$47,996	\$35,295	\$22,594	\$9,893	\$2,808	\$15,509
	5.25%	\$101,692	\$88,337	\$74,982	\$61,627	\$48,272	\$34,917	\$21,562	\$8,208	\$5,147	\$18,502	\$31,857
	5.50%	\$91,816	\$77,802	\$63,789	\$49,776	\$35,762	\$21,749	\$7,736	\$6,277	\$20,291	\$34,304	\$48,317
	5.75%	\$81,875	\$67,199	\$52,523	\$37,847	\$23,171	\$8,495	\$6,181	\$20,857	\$35,533	\$50,209	\$64,885
e	6.00%	\$71,872	\$56,529	\$41,186	\$25,843	\$10,500	\$4,843	\$20,186	\$35,529	\$50,871	\$66,214	\$81,557
Rat	6.25%	\$61,809	\$45,795	\$29,781	\$13,768	\$2,246	\$18,260	\$34,273	\$50,287	\$66,301	\$82,315	\$98,328
est	6.50%	\$51,689	\$35,001	\$18,312	\$1,624	\$15,065	\$31,753	\$48,441	\$65,130	\$81,818	\$98,506	\$115,195
Iter	6.75%	\$41,514	\$24,148	\$6,781	\$10,586	\$27,952	\$45,319	\$62,686	\$80,052	\$97,419	\$114,786	\$132,153
-	7.00%	\$31,287	\$13,239	\$4,810	\$22,858	\$40,907	\$58,955	\$77,003	\$95,052	\$113,100	\$131,149	\$149,197
	7.25%	\$21,011	\$2,277	\$16,457	\$35,190	\$53,924	\$72,657	\$91,391	\$110,125	\$128,858	\$147,592	\$166,326
	7.50%	\$10,686	\$8,736	\$28,158	\$47,580	\$67,001	\$86,423	\$105,845	\$125,267	\$144,689	\$164,111	\$183,533
	7.75%	\$316	\$19,797	\$39,910	\$60,023	\$80,137	\$100,250	\$120,363	\$140,476	\$160,589	\$180,703	\$200,816
	8.00%	\$10,097	\$30,904	\$51,711	\$72,519	\$93,326	\$114,134	\$134,941	\$155,748	\$176,556	\$197,363	\$218,171



Analysis #3 - Purchase Price vs. HPA Rate:

The blue shaded area in the table below demonstrates at which purchase prices and HPA rates it is more financially feasible to rent housing during the example 10-year occupancy period.

	Purchase Price vs. HPA Rate											
						Purch	ase Price					
		\$300,000	\$320,000	\$340,000	\$360,000	\$380,000	\$400,000	\$420,000	\$440,000	\$460,000	\$480,000	\$500,000
	1.00%	\$67,599	\$92,240	\$116,881	\$141,522	\$166,163	\$190,804	\$215,444	\$240,085	\$264,726	\$289,367	\$314,008
	1.50%	\$51,598	\$75,172	\$98,747	\$122,321	\$145,895	\$169,469	\$193,043	\$216,618	\$240,192	\$263,766	\$287,340
	2.00%	\$34,779	\$57,232	\$79,685	\$102,138	\$124,591	\$147,044	\$169,497	\$191,950	\$214,403	\$236,856	\$259,308
	2.50%	\$17,101	\$38,375	\$59,649	\$80,924	\$102,198	\$123,472	\$144,747	\$166,021	\$187,295	\$208,570	\$229,844
	3.00%	\$1,481	\$18,555	\$38,590	\$58,626	\$78,661	\$98,697	\$118,733	\$138,768	\$158,804	\$178,839	\$198,875
ate	3.50%	\$21,011	\$2,277	\$16,457	\$35,190	\$53,924	\$72,657	\$91,391	\$110,125	\$128,858	\$147,592	\$166,326
A R	4.00%	\$41,536	\$24,171	\$6,806	\$10,560	\$27,925	\$45,290	\$62,655	\$80,020	\$97,386	\$114,751	\$132,116
HP	4.50%	\$63,108	\$47,181	\$31,253	\$15,326	\$601	\$16,528	\$32,455	\$48,382	\$64,309	\$80,236	\$96,164
	5.00%	\$85,778	\$71,362	\$56,946	\$42,530	\$28,115	\$13,699	\$717	\$15,133	\$29,548	\$43,964	\$58,380
	5.50%	\$109,602	\$96,774	\$83,947	\$71,119	\$58,291	\$45,464	\$32,636	\$19,809	\$6,981	\$5,846	\$18,674
	6.00%	\$134,637	\$123,479	\$112,320	\$101,161	\$90,003	\$78,844	\$67,686	\$56,527	\$45,369	\$34,210	\$23,052
	6.50%	\$160,945	\$151,540	\$142,135	\$132,731	\$123,326	\$113,922	\$104,517	\$95,112	\$85,708	\$76,303	\$66,898
	7.00%	\$188,589	\$181,027	\$173,465	\$165,904	\$158,342	\$150,780	\$143,218	\$135,657	\$128,095	\$120,533	\$112,971

As the purchase prices rise it is increasingly beneficial to rent housing when HPA rates are below 6.00%. Due to the expectation mortgage rates will continue to limit HPA going forward paired with expected increases in homeowner's insurance and overall affordability issues, we do not believe HPA rates will exceed 6.00% in most markets for several years.

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Analysis #4 - Monthly Contract Rent vs. HPA Rate:

One of the most fundamental comparisons in rent vs. ownership decisions are differences in monthly payments. The blue shaded area in the table below indicates at which monthly contract rents and expected HPA rates would make renting housing more feasible over the long-term than purchasing a home.

						HP	A Rate					
		1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%	6.00%
	\$1,800	\$215,441	\$196,453	\$176,495	\$155,516	\$133,466	\$110,291	\$85,934	\$60,335	\$33,434	\$5,163	\$24,546
	\$1,900	\$195,223	\$176,236	\$156,277	\$135,299	\$113,249	\$90,073	\$65,716	\$40,118	\$13,216	\$15,055	\$44,763
	\$2,000	\$175,006	\$156,019	\$136,060	\$115,081	\$93,031	\$69,856	\$45,499	\$19,901	\$7,001	\$35,272	\$64,980
ent	\$2,100	\$154,789	\$135,802	\$115,843	\$94,864	\$72,814	\$49,639	\$25,282	\$316	\$27,218	\$55,489	\$85,198
t Re	\$2,200	\$134,572	\$115,584	\$95,626	\$74,647	\$52,597	\$29,422	\$5,065	\$20,534	\$47,435	\$75,706	\$105,415
trac	\$2,300	\$114,355	\$95,367	\$75,408	\$54,430	\$32,380	\$9,205	\$15,152	\$40,751	\$67,653	\$95,923	\$125,632
Con	\$2,400	\$94,137	\$75,150	\$55,191	\$34,213	\$12,163	\$11,013	\$35,370	\$60,968	\$87,870	\$116,141	\$145,849
Į,	\$2,500	\$73,920	\$54,933	\$34,974	\$13,995	\$8,055	\$31,230	\$55,587	\$81,185	\$108,087	\$136,358	\$166,067
nth	\$2,600	\$53,703	\$34,715	\$14,757	\$6,222	\$28,272	\$51,447	\$75,804	\$101,402	\$128,304	\$156,575	\$186,284
Mo	\$2,700	\$33,486	\$14,498	\$5,460	\$26,439	\$48,489	\$71,664	\$96,021	\$121,620	\$148,521	\$176,792	\$206,501
	\$2,800	\$13,268	\$5,719	\$25,678	\$46,656	\$68,706	\$91,882	\$116,239	\$141,837	\$168,739	\$197,010	\$226,718
	\$2,900	\$6,949	\$25,936	\$45,895	\$66,874	\$88,924	\$112,099	\$136,456	\$162,054	\$188,956	\$217,227	\$246,936
	\$3,000	\$27,166	\$46,154	\$66,112	\$87,091	\$109,141	\$132,316	\$156,673	\$182,271	\$209,173	\$237,444	\$267,153

Monthly Contract Rent vs. HPA Rate

The lower the monthly contracted rent the more advantageous it is to rent housing at HPA rates all the way up to 6.00%.

Analysis #5 - Monthly Contract Rent vs. Initial Purchase Price:

The first-time homebuyer couple in the example case have a maximum lender approved purchase price of **\$356,000** and would not be able to afford to purchase homes at higher price points. However, HHE wanted to consider at what price points different contract rents would generate financially feasible alternatives to purchasing a similar home. The area shaded in blue in the table below represents the range of contract rents and home purchase prices which would generate net benefits from renting & investing in excess of the net equity which could accumulate from purchasing a similar home.

					Monthly	Contract Ren	t vs. Initial Pi	irchase Price				
		_				Initial Pu	ırchase Price					
		\$300,000	\$320,000	\$340,000	\$360,000	\$380,000	\$400,000	\$420,000	\$440,000	\$460,000	\$480,000	\$500,000
	\$1,800	\$57,837	\$76,570	\$95,304	\$114,037	\$132,771	\$151,505	\$170,238	\$188,972	\$207,705	\$226,439	\$245,173
	\$1,900	\$37,619	\$56,353	\$75,087	\$93,820	\$112,554	\$131,287	\$150,021	\$168,755	\$187,488	\$206,222	\$224,955
	\$2,000	\$17,402	\$36,136	\$54,869	\$73,603	\$92,337	\$111,070	\$129,804	\$148,537	\$167,271	\$186,005	\$204,738
ent	\$2,100	\$2,815	\$15,919	\$34,652	\$53,386	\$72,119	\$90,853	\$109,587	\$128,320	\$147,054	\$165,787	\$184,521
t Re	\$2,200	\$23,032	\$4,299	\$14,435	\$33,169	\$51,902	\$70,636	\$89,369	\$108,103	\$126,837	\$145,570	\$164,304
rac	\$2,300	\$43,250	\$24,516	\$5,782	\$12,951	\$31,685	\$50,419	\$69,152	\$87,886	\$106,619	\$125,353	\$144,087
ont	\$2,400	\$63,467	\$44,733	\$26,000	\$7,266	\$11,468	\$30,201	\$48,935	\$67,669	\$86,402	\$105,136	\$123,869
3	\$2,500	\$83,684	\$64,950	\$46,217	\$27,483	\$8,750	\$9,984	\$28,718	\$47,451	\$66,185	\$84,919	\$103,652
nth	\$2,600	\$103,901	\$85,168	\$66,434	\$47,700	\$28,967	\$10,233	\$8,500	\$27,234	\$45,968	\$64,701	\$83,435
Moi	\$2,700	\$124,118	\$105,385	\$86,651	\$67,918	\$49,184	\$30,450	\$11,717	\$7,017	\$25,750	\$44,484	\$63,218
	\$2,800	\$144,336	\$125,602	\$106,868	\$88,135	\$69,401	\$50,668	\$31,934	\$13,200	\$5,533	\$24,267	\$43,000
	\$2,900	\$164,553	\$145,819	\$127,086	\$108,352	\$89,618	\$70,885	\$52,151	\$33,418	\$14,684	\$4,050	\$22,783
	\$3,000	\$184,770	\$166,037	\$147,303	\$128,569	\$109,836	\$91,102	\$72,368	\$53,635	\$34,901	\$16,168	\$2,566

<u>Appendix C – Assumptions</u>

Assumption	Assumption		Impact	Verification	
Category	Subcategory	Assumption Description	Level	Status	Verification Source
Market	Home ownership	Home purchase price of \$356,000 assumes a \$12,300 (3.3%) discount below the median home price in the southern U.S. (\$368,300) as of 1/10/2025.	High	Verified	National Association of Realtors
Financial	Home ownership	Assumed potential homebuyers are considering purchasing an existing home and not a new home which often provide homebuilder incentives such as interest rate or closing costs financial subsidies. Utilization of such incentives would lower the cost of home ownership.	High	Assumed	-
Financial	Home ownership	Principal & Interest are based on a conventional fixed rate mortgage equal to 95% (\$338,200) of the home value at time of purchase with a 30-year term.	Medium	Assumed	-
Market	Home ownership	Base Example Case: assumes first time homebuyers are currently renting, are working with a financial advisor, and have accumulated enough liquid assets to absorb the combined financial obligations of the associated 5% (\$17,800) downpayment and closing costs/escrows/prepaid expenses (\$12,656) to purchase a for \$356,000.	High	Assumed	-
Technical	Rental & Home ownership	Assumes rental & home ownership occupancy period of 10-years.	High	Assumed	-
Financial	Home ownership	Assumes lack of community management organizations (HOA, POA, COA, etc.) and associated costs.	Medium	Assumed	-
Financial	Home ownership	Assumes property tax increases by 2% per year of occupancy.	Low	Assumed	-
Financial	Home ownership	Assumes homeowner's insurance increases by 2% per year of occupancy.	Low	Assumed	-

Financial	Home ownership	Assumes private mortgage insurance (PMI) is assessed at a rate equal to 1% of the loan value in each year from the date of purchase. For conventional mortgage loans, a request for cancelation of PMI can be made when the principal loan balance equals 80% or less of the home's value. The implied loan to value (LTV) ratio at the end of Year 4 is 79% indicating PMI could be removed subject to a viable real estate appraisal.	Medium	Assumed	-
Financial	Home ownership	Lawn Maintenance assumed to increase at 5% at the end of every 3rd year of occupancy.	Medium	Assumed	-
Financial	Home ownership	Pest Control service assumed to increase at 5% at the end of every 3rd year of occupancy.	Medium	Assumed	-
Financial	Home ownership	Repairs & Maintenance assumed to increase at 3.0% per year.	Medium	Assumed	-
Financial	Home ownership	Initial Cost of Ownership in Year 1 of \$67,100 is the sum of the downpayment (\$17,800), closing costs, escrows, and prepaid expenses (\$12,656), annual housing payments (\$33,401) in Year 1, and estimated home maintenance costs in Year 1 (\$3,243).			
Market	Home ownership	Reference to the HPA of 4.5% experienced in multiple states in the southeastern U.S. were derived from the S&P CoreLogic Case-Shiller U.S. National Home Price Index.	High	Verified	S&P CoreLogic Case-Shiller Index
Market	Renting	Quinn Residences is a leading developer/operator of single-family rental home communities in the southeastern U.S. with portfolios in both metro and suburban areas of Florida, Georgia, North Carolina, South Carolina, & Tennessee. Quinn Residences shared the average base rent for their homes in 2024 was \$2,120 which is the amount HHE utilized as the base rent.	High	Verified	Quinn Residences
Financial	Renting	Initial application fees (\$500 per person), administrative fee (\$200), pet fee (\$300) and a security deposit equal to 1x base rent is assessed.	Medium	Assumed	

Financial	Renting	Initial monthly renter's insurance premium of \$29 assumes monthly payment and not quarterly or bi- annual which may reduce the total premium paid during any one year. Premium amount assumed to increase at a rate of 5% after every 3rd year.	Low	Verified	Various insurance agencies.
Market	Renting	S&P 500 returns utilized are the monthly nominal returns from 2015 - 2024 as provided by Statemuse.com.	High	Verified	Statemuse.com
Market	Home ownership	The transaction costs of 5% of home value reflected in the HPA calculations assume realtors' fees of 4% and additional closing costs of 1% of the home value.	High	Assumed	

