HUNTER HOUSING ECONOMICS

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:

Comparisons of whether renting housing or purchasing housing is the right financial choice is a common subject of discussion when planned or sudden household changes occur. The majority of these discussions are often one-or two-dimensional whereby variables such as differences in monthly housing payments, the potential accumulation of home equity, and initial cash outflows, are considered and compared. While these more topical considerations should be included in the discussion, renters and homeowners alike would be better served by taking the time to more thoroughly compare these housing options. Thoughtful comparisons of the long-term housing costs of renting vs. buying over the desired occupancy period along with a realistic comparison of probable asset returns over the same period of time could provide more in-depth insights as to which housing option may be the best fit for the circumstances. More often than not, such thorough comparisons are not considered, and less productive housing decisions are made.

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 period. Historical home ownership appreciation rates and alternative equity investments were considered in tandem with current housing market variables, current home rental rates, and highly probable shifts in home prices. Once the data was assembled, it was applied to a decision faced by many households when considering whether to rent or purchase a home.

Findings:

Our findings suggest home ownership is not always the most viable financial option for many potential or existing homeowners. The primary reasons why renting can be superior to home ownership are financial impacts from incurring large initial cash outflows when purchasing a home, the consistent need to incur costly homeowner's insurance premiums, property taxes, and maintenance costs. In this report we illustrate with an example which shows a renter can be better off to the tune of approximately $31,000 after a 10-year occupancy period (expressed in future dollars, with typical money management strategies).

The Decision – Buy or Rent

For decades popular opinion and the news media have asserted renters should aspire to home ownership given the ability of the underlying real estate asset to create wealth through home price appreciation (HPA). When renters think about the decision to rent or buy housing, many are either not aware of, or tend to forget, the many non-recoverable costs involved in purchasing and owning a home. Renters also tend to forget about the time, energy, and unexpected expenses 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 could be possible via renting and investing in an alternate equity investment over a 10-year estimated 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 choosing to either rent or purchase a home in relation to the probable investment returns on a single-family home vs. an alternative equity investment over the same 10-year holding period.

This report also explores what happens when different assumptions are utilized about future home price appreciation and interest rates.

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. The savings goal to purchase a home was composed of a 5% downpayment (**$17,800**), closing costs (**$8,436**), estimated prepaid expenses (**$2,673**), and initial escrows (**$1,547**) needed to purchase a home with a maximum purchase price of **$356,000** as established by their lender. The couple happily informed their financial advisor that over the past few weeks they successfully reached their savings goal of **$30,456**. Their financial advisor congratulates them on reaching the goal and mentions she has an idea she wants them to think about between now and their next appointment. She asks if they would consider renting a larger rental home that 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 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 payment for them. The financial advisor reminds them 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.

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 differences in monthly housing payments, the amount of potential home equity which might be attained, and the initial cash outflows needed to purchase a home. Comparisons made at the surface level such as these 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. The costs of owning improved real estate, whether owned by an individual homeowner or a commercial landlord, generally tends to increase over time. Buildings age and require increasing maintenance and repair. Insurance costs increase with the age of structures as building codes change and better improvements are made in building materials. Property taxes increase over time due to the price appreciation of real estate in the surrounding area. These aggregated increases are incurred by property owners at the time they occur whereas renters sustain proportional increases in these costs upon the renewal of their leases.

In our comparison of the costs of home ownership vs. the costs of renting housing we included the following components & variables for each respective 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 loan 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 home rental would be expected to be higher 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 where a potential homebuyer is considering purchasing a new home from a builder, these incentives would decrease the initial cash outflows incurred in the first year thereby reducing the cost of home ownership in comparison to renting.*
- *To derive the monthly base rent 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 in the southeastern U.S. based upon their ongoing research in many southeastern markets.*

Based on the cost components above, we generated the following estimates for the total costs of home ownership and the total costs of renting a similar home for a 10-year occupancy period.

Home Purchase Outflows:	
Down Payment $	$17,800
Lender & Title Fees	$8,436
Total Estimated Prepaids	$2,673
Initial Escrows	$1,547
Total Other Costs / Fees	$0
Purchase Outflows	**$30,456**

Home Purchase Variables:	
Purchase Price	**$356,000**
Down Payment %	5.0%
Down Payment $	$17,800
Loan Amount	**$338,200**
Note Rate	7.25%
Loan Term (months)	360

Home Ownership Variables:	
Property Tax increase (yearly)	2.0%
HOI increase (yearly)	2.0%
PMI (% of Loan) to 75% LTV	1.0%
Lawn Care increase (3 yrs)	5.0%
R&M increase (yearly)	3.00%

Home Ownership Costs

	Years of Occupancy										
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.*

The first year of home ownership is especially burdensome, as large cash outflows are required for the downpayment, prepaid expenses, closing costs, and the initial funding of escrow accounts. In total these initial cash outlays total **$30,456** and are in addition to the required periodic housing payments of **$33,401** and estimated home maintenance costs of **$3,243** in the first year of ownership. In total, owning the home in the example case would cost **$67,100** in the first year and **$413,412** over the course of the 10-year holding period.

Rental Housing Costs

Costs of Rental Housing (SFD)

Initial Fees:	
Application Fee (2)	$200
Adminstrative Fee	$300
Pet Fee	$300
Security Deposit (1x rent)	$2,160
Total Initial Fees	**$2,960**

Contract Rent Variables:	
Monthly Base Rent	$2,160
(+) Landscaping Fee	$30
Monthly Contract Rent	**$2,190**
(+) Renter's Insurance	$29
Monthly Rental Costs	**$2,219**

Rental Housing Variables	
Contract Rent increase (3 yrs)	10%
Renter's Insurance increase (3 yrs)	5%

	Years of Occupancy										
Rental Housing Outflows:	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Ending Value**
Initial 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)	$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**	**$32,185**	**$32,185**	**$32,185**	**$33,224**	**$300,454**

Similar to the first year of home ownership, the cost of rental housing during the first year is typically elevated due to required initial fees and deposits. In our example we assume the renters will incur initial cash outflows of **$3,160** in the first year including a security deposit of **$2,160** (1x base rent) and associated fees of **$1,000**. We also assume the security deposit of **$2,160** will be refunded upon the conclusion of occupancy. In this example case, the renters would incur

$300,454 in rental housing costs over the 10-year occupancy period, including 10% increases in contract rent every 3 years and increases in renter's insurance premiums of 5% every 3 years.

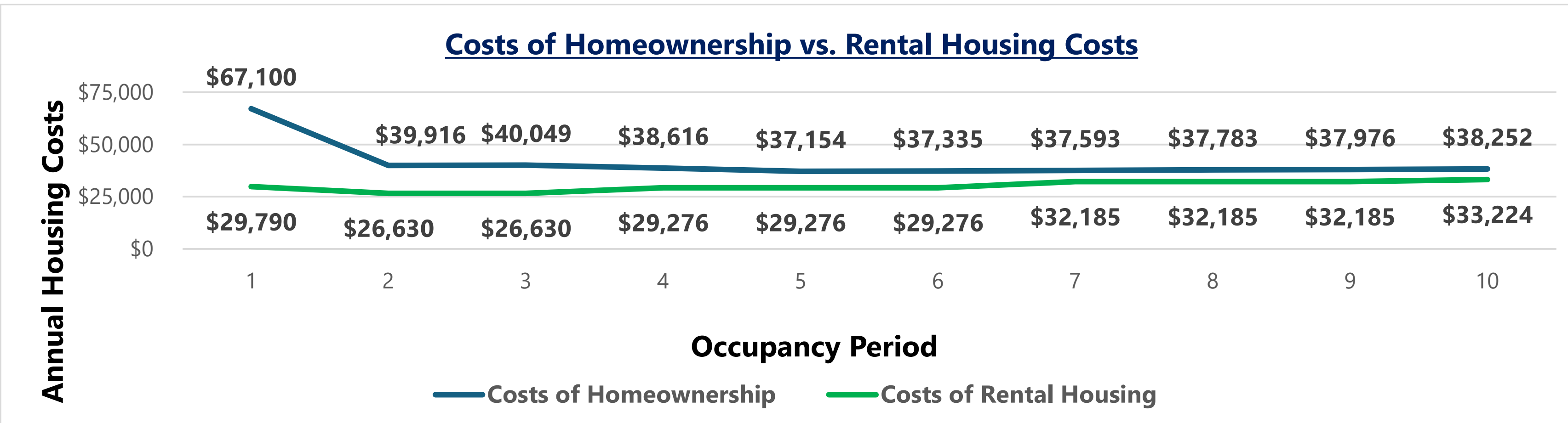
Housing Cost Comparison

A summary comparison and graph of the cost of home ownership vs. cost of renting housing is summarized below.

Costs of Homeownership vs. Costs of Renting

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%*



Comparing the total costs of these two housing options, rental housing has a clear advantage with renters incurring **$112,958**, or 37.6%, less costs over the same occupancy period. Most notably, the potential cost savings of renting vs. owning in Year 1 is **$37,510** less due to the required cash outflows to purchase the home, which is often a significant hurdle for most potential homebuyers to overcome.

If renters anticipate spending almost $113,000 less on housing over a 10-year period and their intention is to accumulate wealth, they need to select an appropriate investment vehicle to accomplish their goal. Finding and selecting the right investment vehicle should be completed with the assistance of a financial advisor, or other qualified professionals, to consider renters' respective risk and investment profile and current financial circumstances.

Investing the Difference

There are a multitude of equity investments available for renters/investors to choose from. The example case involves a married couple who are first time homebuyers and whose intended purpose is to create wealth over a 10-year holding period. To accomplish the renters' goal of wealth creation, an S&P 500 index fund was selected with the assumption such an index fund would be an appropriate investment and with the following four supporting reasons:

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 within the index.
3. S&P 500 index funds are some of the most widely traded funds in the world and therefore maintain a consistently high level of liquidity.
4. Transaction fees on index funds are negligible to investors' total returns.

The S&P began reporting index returns in 1926 and annual returns since have averaged between 10% - 12% depending upon whether dividend reinvestments are included or excluded. In our example case the average annual return during the 10-year occupancy period is 10.9%, not including reinvestment of any dividends. The reason we chose not to include potential dividend reinvestments is because their presence would introduce impacts from federal short-term capital gains tax considerations and varying state tax laws and tax rates upon which taxable income could vary.

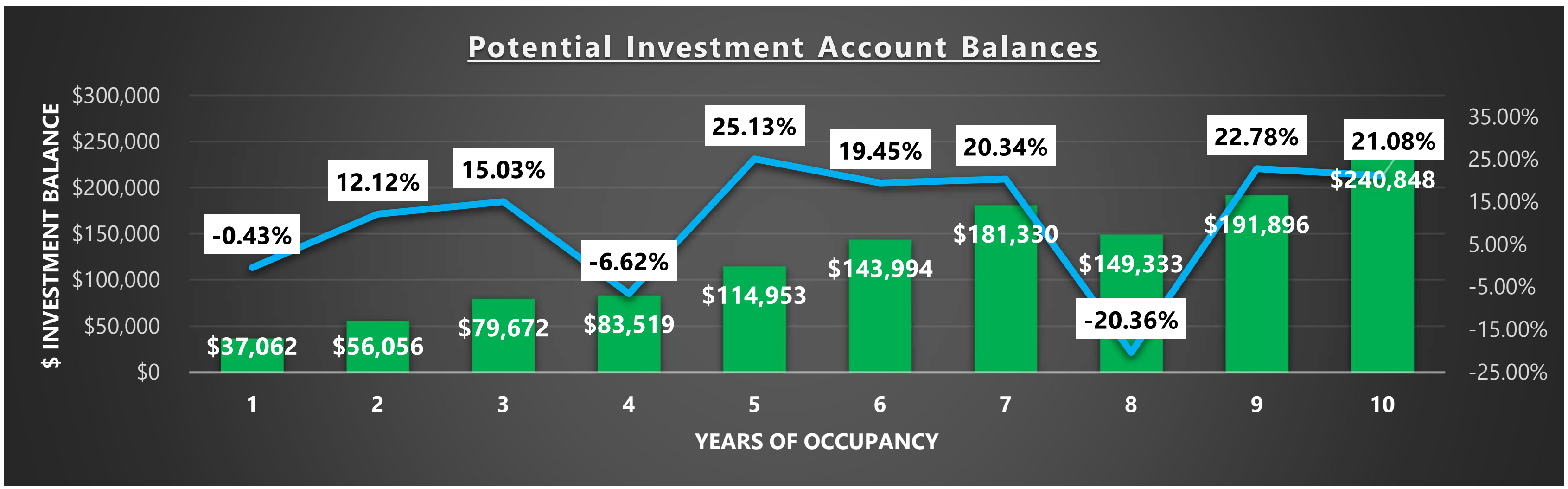
The table & chart below clearly demonstrate how the initial housing costs difference in favor of renting in Year 1 would provide renters a significant initial deposit upon which to grow their equity investment. Even while experiencing three years of negative returns renters in the example could accumulate over **$240,000** in liquid assets by the end of Year 10.

Invest the Cost Difference

Investment Vehicle — *S&P 500 Index Fund*

Tax Filing Status	Married Filing Jointly
Marginal Capital Gains Tax Rate	15.00%
Effective Capital Gains Tax Rate	**8.98%**

	Holding Period										
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
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**



While short-term capital gain taxes, state income tax laws, or state tax rate considerations are not included within our calculations, a significant consideration for the renters/investors is the potential impact of federal long-term capital gains taxes upon extinguishing their investment account at the end of Year 10. In our calculations we assume all deposits into the renters' investment account are made on a pre-tax basis. Therefore, the entire ending balance would be subject to long-term capital gains tax. The long-term capital gains liability is calculated based upon the Internal Revenue Service's (IRS) 2025 capital gains income and tax brackets as follows.

2025 Capital Gains Tax Rates						
	Single Filers		**Head of Household**		**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	$ 96,700
Taxable Investment Gain	$144,148
Marginal Capital Gains Tax Rate	15%
Long-Term Capital Gains Tax	**$ 21,622**

Total Long-Term Capital Gain	$240,848
(-) Long-Term Capital Gains Tax	$ 21,622
Net After-Tax Investment Balance	**$219,226**
Effective Capital Gains Tax Rate	8.98%

Home Price Appreciation (HPA)

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 based upon market fluctuations. 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 but securing fixed principal & interest payments does not preclude subsequent increases in homeowners' insurance premiums, property taxes, private mortgage insurance premiums, and maintenance costs from occurring and altering the initial cost of ownership. Historical upward shifts in these components are why we include allowances for periodic increases in housing costs in our proprietary model.

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 along the same trajectory over the next several years. 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.

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

Home Price Appreciation

Home Price Appreciation % 3.5%

Home Price Appreciation:	1	2	3	4	5	6	7	8	9	10	Ending Value
	Homeownership Period										
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**
Implied Gross LTV	90.8%	86.8%	82.9%	79.0%	75.3%	71.6%	68.1%	64.6%	61.2%	57.8%	57.8%
(-) Transaction Costs (5% of Ending Value)	$18,433	$19,089	$19,768	$20,471	$21,199	$21,953	$22,734	$23,542	$24,379	$25,247	$25,247
Net Equity	**$15,302**	**$31,277**	**$47,959**	**$65,384**	**$83,588**	**$102,612**	**$122,497**	**$143,289**	**$165,034**	**$187,783**	**$187,783**

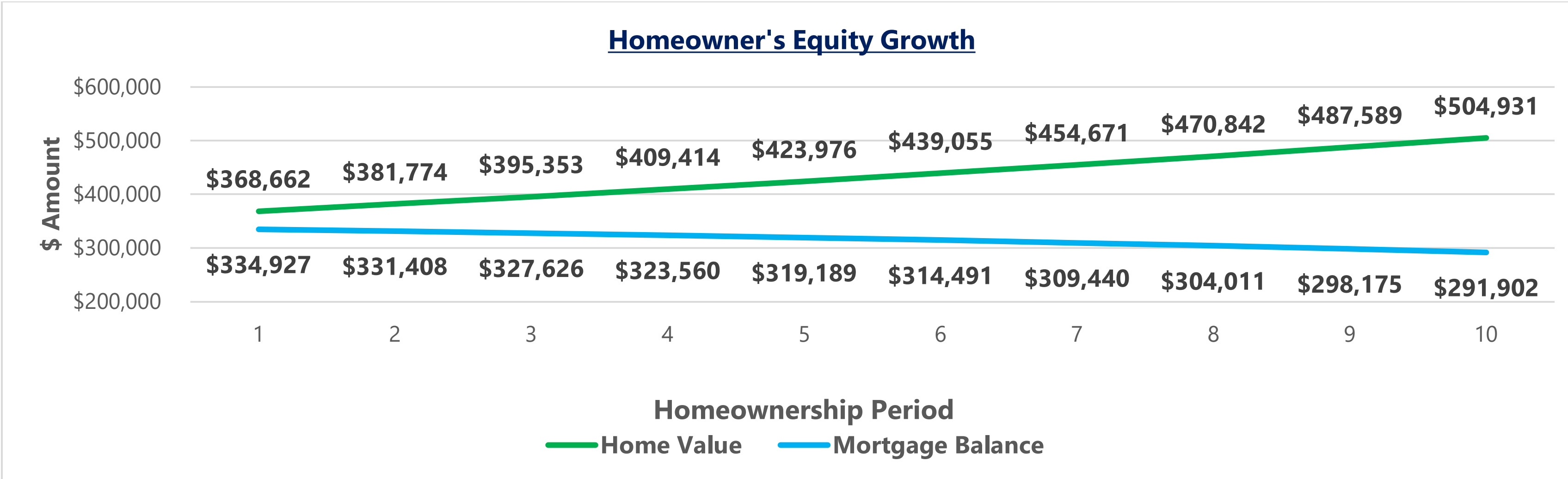
In this example, the value of the home appreciates from **$356,000** in **Year 1** to **$504,931** at the end of **Year 10** for total HPA of **$148,931**. This appreciation paired with the gradual amortization of the outstanding loan balance are the combining forces which create total gross equity at the end of Year 10 of **$213,029**.

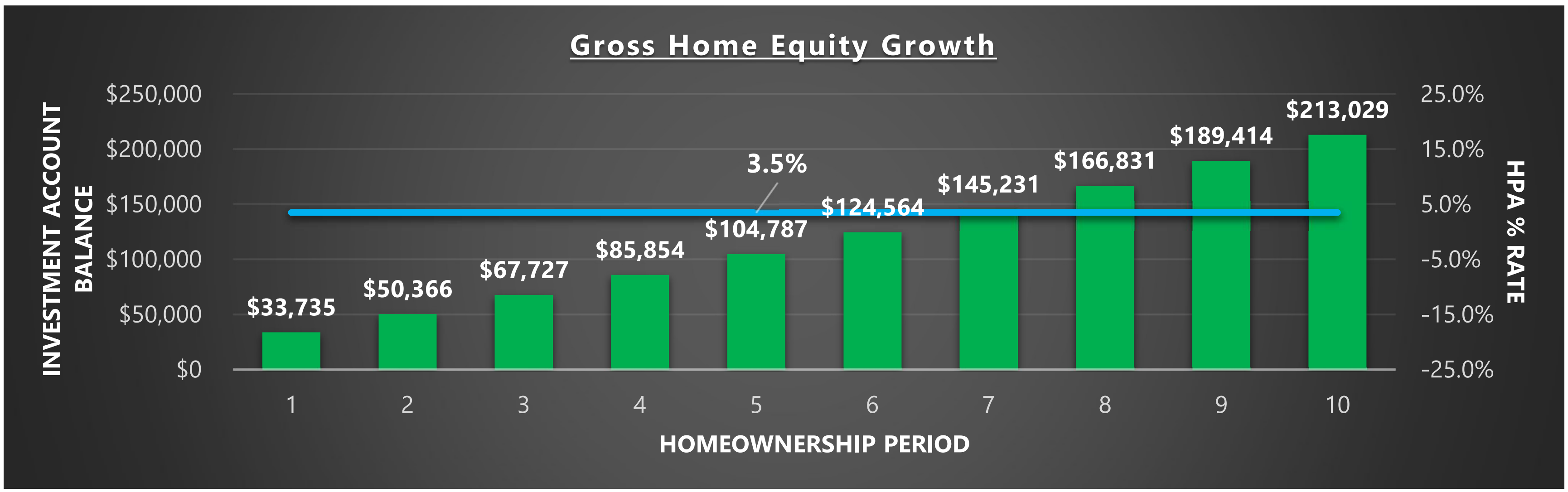
	Beginning	**Ending**
Home Value	$356,000	$504,931
(-) Loan Balance	$338,200	$291,902
Gross Home Equity	**$17,800**	**$213,902**

The amount of projected gross home equity is often an area of focus for those considering the rent vs. ownership decision and is frequently contemplated in the context of the following calculation.

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

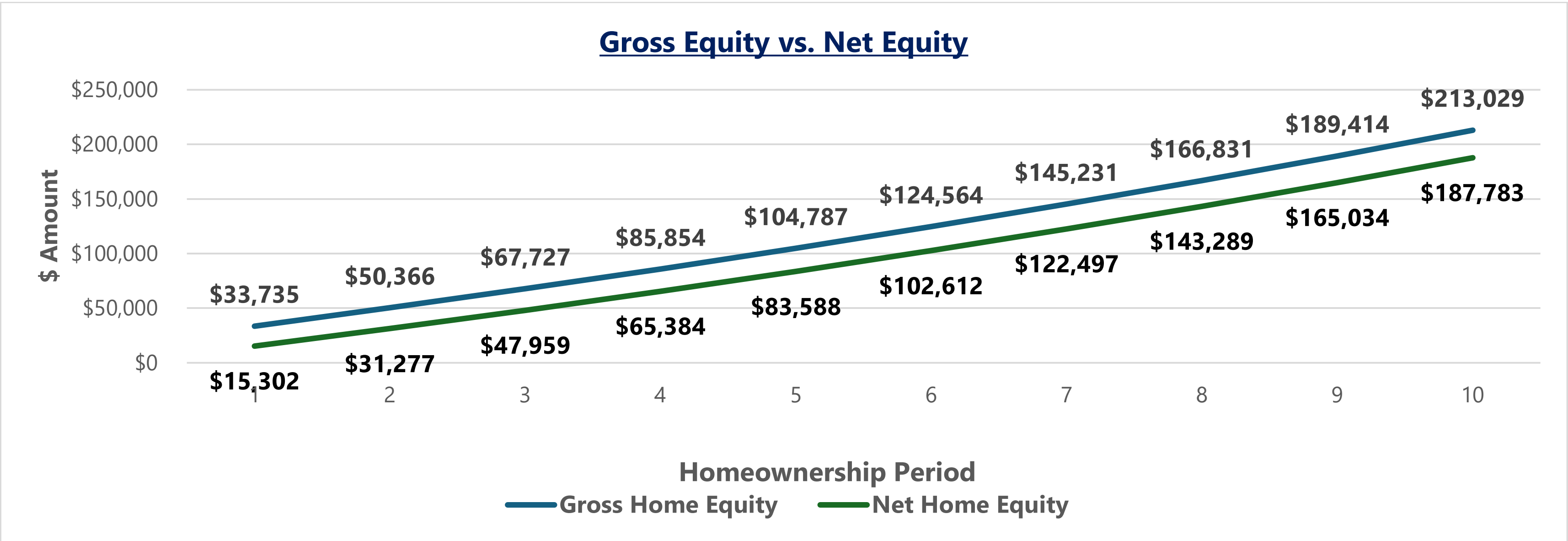
Similar calculations most often dissolutions the public media, potential homebuyers, and existing homebuyers into conceptualizing home ownership as being more profitable than it actually is. This basic calculation ignores the upfront cash outflows, carrying costs, and transactions fees of home ownership. The following charts are illustrations of how gross equity accumulates throughout the 10-year holding period in the example case.





Those considering the rent vs. ownership decision often ignore that extracting the equity accumulated within their home requires incurring considerable transaction costs in the sale of the real estate asset. They also tend to ignore how transaction costs impact their projections of home equity and the associated returns from owning the home.

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



A distinct advantage of home ownership under the current U.S. tax laws is encapsulated in the IRS' Topic 701 regarding the exclusion of up to $250,000 for single income tax filers or up to $500,000 for married filing jointly filers. This tax law allows for tax free gains on the sale of a primary residence up to the applicable limits.

Conclusion

The table below demonstrates that renting housing and investing in a widely used stock index 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. In this particular example, the difference in housing costs before accounting for transaction costs is in favor of renting and investing by **$27,819**. Taking into consideration home ownership transaction costs and long-term capital gains from investment gains at the end of Year 10 increases **the advantage of renting vs. buying to the tune of $31,444**.

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 variables, and taking into consideration highly probable shifts in home prices, more wealth can be created by renting housing and investing than via home ownership in some instances. 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.

Appendix A – Comparing HPA Scenarios

HPA Rate vs. After-Tax Benefit

The comparison below reflects how the Gross Equity, Transaction Costs, Net Equity, and the After-Tax Benefit of Renting & Investing change as the HPA rate increases from 3.00% - 6.00%. The average HPA rate would have to approach 4.50% in order for Net Equity to generate a more favorable after-tax return from home ownership than from renting and investing.

HPA Rate vs. Rental Housing Benefit

	HPA %						
	3.00%	**3.50%**	**4.00%**	**4.50%**	**5.00%**	**5.50%**	**6.00%**
Gross Equity	$188,468	$213,029	$238,835	$265,948	$294,434	$324,362	$355,804
Transaction Costs	$24,018	$25,247	$26,537	$27,892	$29,317	$30,813	$32,385
Net Equity	**$164,450**	**$187,782**	**$212,298**	**$238,056**	**$265,117**	**$293,549**	**$323,419**
After-Tax Rent + Investing Benefit	**$54,619**	**$31,444**	**$7,086**	**($18,512)**	**($45,414)**	**($73,685)**	**($103,393)**

The fact that the HPA rate does not need to reach 4.5% for home ownership to outperform renting & investing may seem counter intuitive. The explanation lies in the mathematical nature of compounding returns.

Compounding Returns:

The HPA rate of 3.5% is applied to the home's initial value **($356,000)** which is more than 12 times the initial balance of the investment account **($28,296)** in Year 1. The substantially higher value of the real estate asset allows relatively low HPA rates to yield similar dollar ($) returns to the much higher returns (10.89% average return) realized on the smaller investment account balance. The forecasted HPA would need to increase by less than 1% for home ownership to outperform the after-tax benefits of renting & investing. For instance, an increase in the HPA rate from **3.5%** to **4.5%** would produce an additional **$50,274** ($238,056 - $187,782) in Net Equity over the occupancy period and outperform the after-tax benefit of renting & investing by **$18,512** as reflected in the table above.

Appendix B – Additional Sensitivity Analyses

To further explore the dynamics between rental housing vs. home ownership we completed additional sensitivity analyses utilizing our proprietary financial model. The tables below contain comparisons of different rental housing & home purchase variables to determine at what points renting and investing over the long-term would be preferrable to long-term home ownership. The situations **favorable to renting housing are denoted in black type** and highlighted in blue while situations **favorable to home ownership are denoted in red type**.

Purchase Price vs. HPA Rate

The blue shaded area in the table below demonstrates at which purchase price points and HPA rates it is more financially appropriate to rent housing for the 10-year occupancy period.

Purchase Price vs. HPA Rate

HPA 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**
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
3.50%	\$21,011	\$2,277	\$16,457	\$35,190	\$53,924	\$72,657	\$91,391	\$110,125	\$128,858	\$147,592	\$166,326
4.00%	\$41,536	\$24,171	\$6,806	\$10,560	\$27,925	\$45,290	\$62,655	\$80,020	\$97,386	\$114,751	\$132,116
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 price rises it is increasingly beneficial to rent housing if 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, we do not believe HPA rates will be in excess of 6.00% for several years.

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 it would be feasible to rent housing in the example case. The lower the monthly contracted rent the more advantageous it is to rent housing at increased HPA rates up to 6.00%. The unshaded data points represent those instances when Net Equity gains would outperform the after-tax benefit of renting & investing alternative.

Monthly Contract Rent vs. HPA Rate

Monthly Contract Rent	HPA 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
$2,100	$154,789	$135,802	$115,843	$94,864	$72,814	$49,639	$25,282	$316	$27,218	$55,489	$85,198
$2,200	$134,572	$115,584	$95,626	$74,647	$52,597	$29,422	$5,065	$20,534	$47,435	$75,706	$105,415
$2,300	$114,355	$95,367	$75,408	$54,430	$32,380	$9,205	$15,152	$40,751	$67,653	$95,923	$125,632
$2,400	$94,137	$75,150	$55,191	$34,213	$12,163	$11,013	$35,370	$60,968	$87,870	$116,141	$145,849
$2,500	$73,920	$54,933	$34,974	$13,995	$8,055	$31,230	$55,587	$81,185	$108,087	$136,358	$166,067
$2,600	$53,703	$34,715	$14,757	$6,222	$28,272	$51,447	$75,804	$101,402	$128,304	$156,575	$186,284
$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. Initial Purchase Price

The couple in the example case have a maximum lender approved purchase price of **$356,000** and would not be able to afford to purchase a more expensive home. However, we wanted to consider at what 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 points at which the respective contract rents would generate a net benefit from renting & investing that would outperform the purchase of a similar home.

Monthly Contract Rent vs. Initial Purchase Price

		Initial Purchase Price										
		$300,000	**$320,000**	**$340,000**	**$360,000**	**$380,000**	**$400,000**	**$420,000**	**$440,000**	**$460,000**	**$480,000**	**$500,000**
Monthly Contract Rent	**$1,800**	$57,837	$76,570	$95,304	$114,037	$132,771	$151,505	$170,238	$188,972	$207,705	$226,439	$245,173
	$2,000	$17,402	$36,136	$54,869	$73,603	$92,337	$111,070	$129,804	$148,537	$167,271	$186,005	$204,738
	$2,200	$23,032	$4,299	$14,435	$33,169	$51,902	$70,636	$89,369	$108,103	$126,837	$145,570	$164,304
	$2,400	$63,467	$44,733	$26,000	$7,266	$11,468	$30,201	$48,935	$67,669	$86,402	$105,136	$123,869
	$2,600	$103,901	$85,168	$66,434	$47,700	$28,967	$10,233	$8,500	$27,234	$45,968	$64,701	$83,435
	$2,800	$144,336	$125,602	$106,868	$88,135	$69,401	$50,668	$31,934	$13,200	$5,533	$24,267	$43,000
	$3,000	$184,770	$166,037	$147,303	$128,569	$109,836	$91,102	$72,368	$53,635	$34,901	$16,168	$2,566
	$3,200	$225,205	$206,471	$187,737	$169,004	$150,270	$131,537	$112,803	$94,069	$75,336	$56,602	$37,868
	$3,400	$265,639	$246,905	$228,172	$209,438	$190,705	$171,971	$153,237	$134,504	$115,770	$97,037	$78,303
	$3,600	$306,073	$287,340	$268,606	$249,873	$231,139	$212,405	$193,672	$174,938	$156,205	$137,471	$118,737
	$3,800	$346,508	$327,774	$309,041	$290,307	$271,573	$252,840	$234,106	$215,373	$196,639	$177,905	$159,172
	$4,000	$386,942	$368,209	$349,475	$330,742	$312,008	$293,274	$274,541	$255,807	$237,073	$218,340	$199,606
	$4,200	$427,377	$408,643	$389,910	$371,176	$352,442	$333,709	$314,975	$296,242	$277,508	$258,774	$240,041

Appendix C – Assumptions

Assumption Category	Assumption Subcategory	Assumption Description	Impact Level	Verification 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	