

**Benefits of Owning a Home vs. Renting**  
**Bahman F. Davani, Broker/Owner at Texas Five Star Realty**  
**Member of Collin County REALTOR®/Lender Committee**

**Benefits of Owning a Home vs. Renting**

Low prices and record low interest rates have made buying a home more affordable than it's ever been AND a bargain compared to renting. One may ask why would people rent instead of buy a home especially now? How much would they benefit if they buy instead of rent? See answers to these questions below:

**Why People Rent a House?**

- Uncertainty about the housing market and the economy in general.
- Uncertainty about their jobs and steady incomes (employed now, but could be unemployed tomorrow).
- Don't want to commit to a long term contract.
- Don't want to spend time & money for maintenance.
- Don't have or don't want to commit the money for the down payment, closing costs, etc.
- Low risk of obsolescence. It may be possible for lessee tenant to avoid some of the risks of obsolescence associated with ownership.
- Don't qualify for the loan (e.g., low credit score, low income, too much debts, etc.).
- Lack of real estate knowledge.
- Bad experiences.

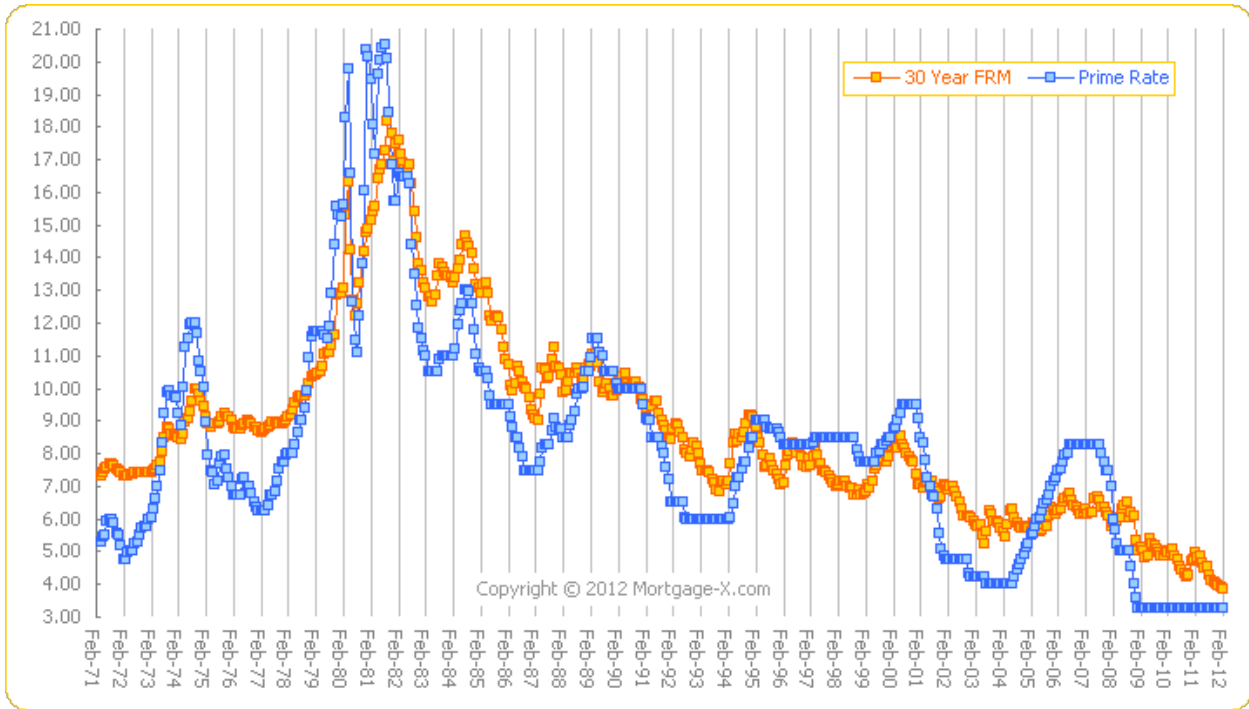
**Why People Buy a Home?**

- Control. The homeowner who lives in his/her home has, within the limits of the law, freedom to change/modify/remodel the home as he sees fit.
- Don't want rules & restrictions imposed by landlords on properties they live in.
- Don't want to waste their money on rents and get nothing back in return.
- They look at home ownership as an investment to build the equity by property appreciation and paying principal over time.
- Tax Savings. The owner of a property is entitled to the tax savings resulting from cost recovery rules and mortgage interest during the holding period and when the property is sold.
- With such low interest rates, monthly mortgage payments could be less than the monthly rent.
- Great feeling, pride of ownership and being in charge (priceless)

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**30-Year FRM (Fixed Rate Mortgage) Rates 1971 – 2010**

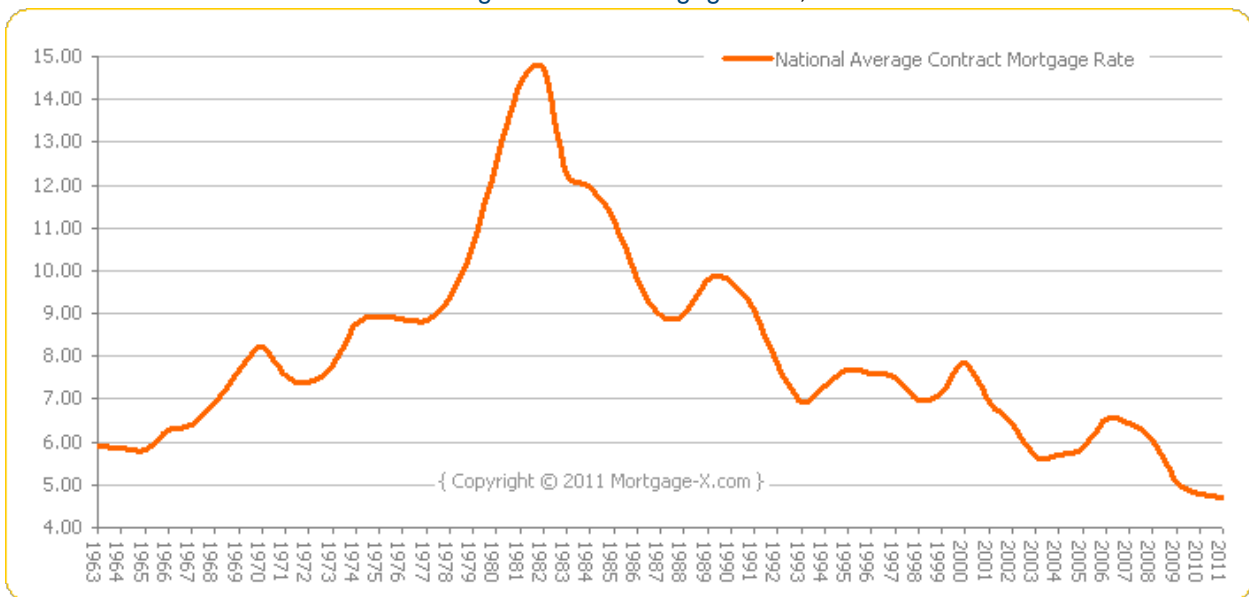
**30-Year FRM Rates 1971 - 2010:**



Reproduced with the permission of Mortgage-X.com.

**Historical performance of the National Average Contract Mortgage Rate**

**National Average Contract Mortgage Rate, 1963 - 2010**



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### **Economic Benefits of Owning a Home vs. Renting a House**

Both values of the homes and rentals are dependent on many factors such as: location, condition, local housing market (supply & demand), size, age, number of stories, etc. In order to compare apple-to-apple, we looked at similar houses (same age, size, condition, etc.) that were sold and leased in last 6 months in a specific location (subdivision) in Collin county Texas. Our findings, for that specific subdivision, are as follow: (See [Table 4 for Comp.](#) at the end of this report for detail information)

- Average Monthly Leased/Sq. Ft. was about \$0.70
- Average Sold/ Sq. Ft. Price was about \$85

With this information, a 2000-SqFt house could be purchased at \$170,000 and could be leased at \$1,400 per month.

### **Comparison Techniques**

The two methods of comparing leasing and owning costs are the Net Present Value (NPV) method and the internal rate of return (IRR) method. The NPV method compares the NPVs of the cash flows for each of the alternatives. The IRR method calculates the IRR on the difference between the owning and leasing cash flows. To calculate NPV and/or IIR you need to have a Real Estate Financial Calculator (e.g., HP 10bII) or have access and authorized to use the CCIM Financial Calculator Excel sheets.

### **Net Present Value Method**

This method reduces each alternative to its periodic cash flows after tax. Applying the user's appropriate after-tax discount rate, an NPV is calculated for each alternative.

### **Internal Rate of Return of the Differential Cash Flows Method**

The IRR method subtracts the lease alternative's periodic cash flows after tax from the own alternative's periodic cash flows after tax and calculates an IRR of this differential. This IRR is after tax and is compared to the user's appropriate after-tax discount rate

### **Savings on Owning vs. Renting calculation**

Table 7, also visit the web page at

[http://www.texasfivestarrealty.com/Blogs/NPV\\_Calculation\\_Bahman\\_1Page.pdf](http://www.texasfivestarrealty.com/Blogs/NPV_Calculation_Bahman_1Page.pdf) to see an Excel spreadsheet, showing a step-by-step calculation of Net Present Values (NPVs) of owning and renting for a simple scenario with no tax savings for a set of default values. We used the special CCIM financial calculator Excel worksheet to derive the results.

Since not everybody has access nor is authorized to use the CCIM financial calculator Excel worksheet, I have developed a free user-friendly internet-based tool that calculates the cost of owning and leasing during a holding time and after, considering all possible costs and benefits related to owning and leasing. The results of this tool and the actual result from the CCIM financial calculator are very close (about +/-0.05%). because the current 1% discount rate is very small.

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You can try this tool at [www.TexasFiveStarRealty.com/rent\\_vs\\_Own.asp](http://www.TexasFiveStarRealty.com/rent_vs_Own.asp)

Based on a set of typical assumptions, please see the attached data sheet for a complete list of input data and assumptions. We found the following results:

**Basic Assumption:** (For a complete list of assumptions, please see [Table 2](#) enclosed data sheet).

- Rent per Month is \$1400. Expect Annual Rent Increase of 5%
- Purchase Price \$170,000. Expect Annual Appreciation (Increase) of 3%
- Various costs of purchasing (e.g., closing costs, up front mortgage insurance, monthly mortgage insurance, property taxes, insurance, HOA, ...), cost of maintenance, repairs, upgrades, up-keep, ..., the eventual selling costs (e.g., commission, closing costs, upgrades, etc.. (see [Table 2](#) input data sheet)
- No HOA fee per month
- Interest Rate 4.5% for 30 Years Term
- Hold for 5 Years
- Income Tax Bracket 28%

**Table 1: Cost Saving: Owning vs. Renting**

Down Payment %, \$ Total Cost of Owning	\$ Saving Owning vs. Renting	
	With No Tax Saving	With Full Tax Saving
100%, \$ 225,791	>= \$58,325	<= \$64,081
20%, \$ 143,716	>= \$23,363	<= \$37,329
10%, \$ 133,458	>= \$18,991	<= \$33,983
3.5% \$126,789	>= \$16,151	<= \$31,810
0%, \$123,198	>= \$14,622	<= \$30,640

**NOTES:**

- 1) Please note that 0% down payment loans are NOT readily available to everybody. E.g., only USDA and VA loan offer 0% down payment and both are very restrictive programs meaning only very small part of the population would qualify.
- 2) Please note that depending on each individual's tax situation, that individual may or may not be able to take advantage of all or some of the tax savings. Therefore, the total benefit of owning falls between the two numbers shown under "With No Tax Saving" (worst case) and "With Full Tax Saving" (best case) columns.
- 3) Please note that the comparison above is only an estimate based on the specific set of assumptions. See next page for complete list of assumptions.

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- 4) You can change the data and assumptions based on your specific needs and come up with different savings by visiting  
[http://www.texasfivestarealty.com/Rent\\_vs\\_Own.asp](http://www.texasfivestarealty.com/Rent_vs_Own.asp)
- 5) Please note that all these assumptions and calculations are for “owner occupants” (those who will live in the home) and not for investors. Investors have different sets of rules, restrictions, and benefits that are different from the “owner occupants”, e.g., investors can deduct and take advantage of depreciation and insurance payments, whereas “owner occupants” cannot.

**Conclusion:**

Low prices and record low interest rates have made buying a home more affordable than it's ever been AND a bargain compared to renting.

Based on the fact described in “Why People Buy a Home?” and financial benefits shown on Table 1, there are clear advantages to owning rather than renting.

**Why should someone buy a home NOW more than ever (if possible)?**

- In many locations in the nation, rents have increased more than 10% over the last 12 months. With fewer consumers able to make the leap into homeownership, rents could continue to climb higher.

Source: First Published: April 5, 2012: 9:59 AM ET

[http://money.cnn.com/2012/04/05/real\\_estate/buy-rent-home-prices/index.htm?hpt=hp\\_c1](http://money.cnn.com/2012/04/05/real_estate/buy-rent-home-prices/index.htm?hpt=hp_c1)

- Asking prices for homes declined 0.7% over the past 12 months through March.  
(Source: Reports released Thursday April 3<sup>rd</sup>, 2012 by Real Estate Listing Site Trulia)
- In many Counties, i.e., Collin County Texas, the assessed value of the houses, Property Taxes, insurance, therefore total monthly payments have been reduced compare to the years before. Allowing more money in homeowner's pockets.

Source: Collin County Appraisal District Statements for Year 2012.

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**Table 2: Input Data Sheet for Rent vs. Own Calculation**

<b>Rent vs. Own Data Sheet</b>	
To estimate the benefits of owning a home as opposed to renting, fill in the form below and click the Calculate button.	
<b>Rent Information:</b>	
Monthly Rent	\$ 1400
Expected Annual Rent Increase (%)	5 %
<b>Purchase Information:</b>	
Purchase Price	\$ 170000
Down Payment %	20.000 %
Annual Interest Rate	4.500 %
Term (years)	30 years
Closing Costs (as % of loan amount)	1.500 %
Up Front MIP or PMI Costs (as % of loan amount)	1.7500 %
Annual MIP or PMI Costs (as % of loan amount), recurring	1.2000 %
Annual Property Tax Rate per \$100 (as % of Assessed Value)	2.18830 %
Annual Property Insurance Cost	\$ 1000
Monthly Home Owner Association Fee	\$ 0
Average Yearly Property Tax, Ins., HOA Increase (as % of Assessed value)	5 %
<b>Home Ownership Information:</b>	
Annual Appreciation on Home (%)	3.000 %
Estimated Annual Repair and Maintenance Cost	\$ 2000
How Long Before Selling?	5 years
Seller Closing Costs (as % of loan amount)	2.000 %
Seller Commission Costs (as % of Future Selling Price)	6.000 %
Seller Repair/Upgrade/... at Closing (as % of Future Selling Price)	2.000 %
Seller Concession Costs (as % of Future Selling Price)	0.000 %
<b>Other Financial Information:</b>	
Annual Interest Rate Currently Earned on your Investment (e.g., Down Payment)	1 %
Income Tax Rate	28 %
<input type="button" value="Calculate"/>	



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**Table 3: A sample of Output for Rent vs. Own Calculation**

Own vs. Rent Calculations: Purchase Price \$170000, Down Payment 20.000%, Hold for 5 Years				
	Purchase Costs		Rent Costs	
<b>Initial Investment Costs</b>	Down Payment	\$34,000	First Month Rent	\$1,400
	Closing Costs	\$2,040	Security Deposit, Pet Deposit	\$1,400
	Up Front Mortgage Insurance	\$2,380	Application fees	\$80
<b>Recurring Costs</b>	Monthly Mortgage Payment (P + I) is \$689.09		Total Rents Paid	\$92,831
	Total Mortgage Interests Paid	\$29,320		
<b>Total Payments for the life of holding the house including appropriate annual % increase</b>	Total Mortgage Principal Paid	\$12,025		
	Total Property Tax Paid	\$20,556		
	Total Home Hazard Insurance Paid	\$5,526		
	Total MIP or PMI Paid	\$8,160		
	Total HOA Paid	\$0		
<b>Cost of Keeping Up</b>	Total Maintenance and Repairs Cost	\$10,000		
<b>Selling Costs</b>	Update, Upgrade, Make it ready to Sell Costs	\$3,942		
	Estimated Closing Costs	\$3,942		
	Estimated Commission	\$11,825		
	Estimated Seller Concession	\$0		
<b>Total Out of Pocket Cost</b>		<b>\$143,716</b>		<b>\$</b>
<b>Profits and Loss:</b>				
<b>Equity \$73,102</b>	Appreciated Value of Home (New Value)	-\$197,077		
	Total Loan Due (Ending Balance)	\$123,975		
<b>Loss</b>	Loss of Interests on Initial Purchase Cost	\$1,734		
<b>Possible Tax Savings Due to Tax and Interest deduction. (1)</b>	Due to Deduction of Mortgage Interests Paid	-\$8,210		
	Due to Deduction of Property Tax Paid	-\$5,756		
<b>Summary of Cost and Benefit Own vs. Rent:</b>				
Best Case	Total Cost of Owning the house With TAX Saving	\$58,382	Total Cost of Renting	\$95711
Worst Case	Total Cost of Owning the house Without Tax Saving	\$72,348	Total Cost of Renting	\$95711
	<b>\$23363 &lt;= Benefit of Owning vs. Renting &lt;=</b>	<b>\$37329</b>	<b>Non-Taxable Income</b>	
<b>Try New Data</b>				

(1) Please note that depending on each individual's tax situation, that individual may or may not be able to take advantage of all or some tax savings. Therefore, total cost of owning falls between Best Case and Worst Case Scenarios..

(2) This comparison is an estimate based on a set of data which were input on previous page and is for illustration purposes only.

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**Table 4: Rent vs. Purchase \$Cost/Sq. Ft.**

Rent vs. Purchase Cost/SqFt.

Bahman Davani

Rent vs. Purchase data

**Assumptions:**

1. Single Family Residential
2. City of Plano, County: Collin, Sub-Division Place 02 544 (between Park & Plano Parkway AND Coit & Preston)
3. Use the actual data Sold and Leased in last 6 month within the same sub-division and same neighborhood for similar houses and very close ages (built within 1981-1983)

Type/Avg.	Avg. Sold/Leased Price	Avg. Price/SqFt
SOLD	\$181,093	\$85.63
LEASED	\$1,432	\$0.68

LEASED	\$Leased Price /Sq Footage	\$Leased/SqFt
LEASED	\$1,395/1863	\$0.75
LEASED	\$1,450/2022	\$0.72
LEASED	\$1,450/2547	\$0.57

**Notes:** Typical good condition \$Leased/SqFt in Collin County ranges from \$.70-\$.80 with \$.75/SqFt. to be the norm.

**Leased prices, similar to purchase prices, are dependent on location, condition, size & upgrades, Market Conditions, Price range, etc. Other part of town with very low purchase prices (e.g., <100K), could have Avg. \$/Lease/SqFt about \$1.00, where as high-end homes (e.g., >\$400K) range could be less.**



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**Table 5: CMA for Sold Houses in a specific Neighborhood**

Rent vs. Purchase Cost/SqFt.

Bahman Davani

**Comparative Market Analysis**

Your initial search criteria were: ((LISTSTATUS IN ('SLD') AND STATUSCHANGEDATE>=CONVERT(DATETIME:'9/9/2011')) AND (( (TBL.CITY LIKE 'PLANO%') AND (SUBDIVISION LIKE 'PLACE 02 544%' )))

Prepared for **Bahman**

Property Type: Single Family Status: Sold														
Subject Property Address	City	BR	Bth	Gar/ Cp/TCP	SqFt	Ac	Blt	PL	CDOM	List Price	SP %LP	Sold Date	\$/ SqFt	Sale Price
<del>SUBJECT PROP</del>	Plano	3	2.0	2/0/0	2,005	0.205	1979	N	0	156,000	100	10/26/2011	77.70	155,780
<del>PROJECT PROP</del>	Plano	4	2.1	2/0/2	2,119	0.248	1981	Y	27	195,000	99	11/30/2011	90.84	192,500
<del>SUBJECT PROP</del>	Plano	4	2.1	2/0/2	2,207	0.195	1980	Y	170	199,900	98	3/01/2012	88.36	195,000
Min		3	2.0	2/0/0	2,005	0.195	1979		27	156,000	98		77.70	155,780
Max		4	2.1	2/0/2	2,207	0.248	1981		170	199,900	100		90.84	195,000
Average		4	2.1	2/0/1	2,110	0.220	1980		99	183,633	99		85.63	181,093
Number of Properties: 3														
Average ( SalePrice / SqFt ) : \$85.63														

Prepared by  
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**Table 6: CMA for Leased Houses in a specific Neighborhood**

Rent vs. Purchase Cost/SqFt.

Bahman Davani

**Comparative Market Analysis**

Your initial search criteria were: ((LISTSTATUS IN ('LSE') AND STATUSCHANGEDATE >= CONVERT(DATETIME, '9/9/2011')) AND ((TBL.CITY LIKE 'PLANO') AND (SUBDIVISION LIKE 'PLACE 02 5449'))

Prepared for **Bahman**

Property Type: Lease Status: Leased														
Subject Property Address	City	BR	Bths	Gar/ Cpt/ TCP	SqFt	Acres	Yr	Pool	CDOM	List Price	LsdP %LP	Leased Date	Price/ SqFt	Leased Price
<del>XXXXXXXXXXXXXXXXXX</del>	3	2.0		2/0/2	1,863	0.193	1982	N	0	1,395	100%	12/01/2011	0.75	1,395
<del>XXXXXXXXXXXXXXXXXX</del>	4	2.0		2//2	2,022	0.200	1981	N	7	1,450	100%	2/27/2012	0.72	1,450
<del>XXXXXXXXXXXXXXXXXX</del>	4	2.1		//2	2,547	0.203	1982	N	0	1,450	100%	9/22/2011	0.57	1,450
Min	3	2.0		0/0/2	1,863	0.193	1981		7	1,395	100%		0.57	1,395
Max	4	2.1		2/0/2	2,547	0.203	1982		7	1,450	100%		0.75	1,450
Average	4	2.0		1/0/2	2,144	0.200	1982		7	1,432	100%		0.68	1,432
Number of Properties: 3														
Average ( Price / SqFt ) : \$0.68														

Prepared by **Bahman Davani**  
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**Table 7:** Visit [http://www.texasfivestarrealty.com/Blogs/NPV\\_Calculation\\_Bahman\\_1Page.pdf](http://www.texasfivestarrealty.com/Blogs/NPV_Calculation_Bahman_1Page.pdf) to see a large view of this excel sheet.

OWNING COST										FINANCIAL CALCULATOR									
Calculating NPV based on the scenario from Rent_vs_Own.asp default case										NPV AND RR CALCULATION									
Item	Annual Increase	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total	NPV at 1%	EQY	Cash Flows	+	Sale Proceeds	NPV at 1%	Internal Rate of Return				
Income Tax Bracket %	20.00%	0									0	→	(\$36,420.00)						
Annual Cost Opportunity Rate (Discount Rate) %	1.00%	0									1	→	(\$16,689.41)	+					
Purchase Price \$	\$ 170,000	\$ 170,000									2	→	(\$15,810.80)	+					
Downpayment %	20.00%	0	\$ 34,000.00								3	→	(\$10,043.21)	+					
Purchase Closing Cost % (Based on Loan Amount)	1.50%	0	\$ 2,550.00								4	→	(\$18,297.22)	+					
UPMP % (Based on Loan Amount)	1.75%	0	\$ 2,975.00								5	→	(\$18,843.50)	+	\$57,335.84				
<b>Total Initial Investments at Year 0</b>			<b>\$ 39,475.00</b>																
Monthly Mortgage (Principal+Interest) \$	6.00%	0	\$ 629.09	\$ 629.09	\$ 629.09	\$ 629.09	\$ 629.09	\$ 629.09			6	→		+					
MIP %	1.20%	0	\$ 136.00	\$ 136.00	\$ 136.00	\$ 136.00	\$ 136.00	\$ 136.00			7	→		+					
Property Tax Rate % (Based on Assessed+Purchase Price)	2.10000%	0	\$ 357.00	\$ 357.00	\$ 357.00	\$ 357.00	\$ 357.00	\$ 357.00			8	→		+					
Ann. Insurance \$	\$ 1,000.00	0	\$ 83.33	\$ 83.33	\$ 83.33	\$ 83.33	\$ 83.33	\$ 83.33			9	→		+					
Monthly HOA \$	\$ -	0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			10	→		+					
Monthly Maint. \$	\$ 166.67	0	\$ 166.67	\$ 166.67	\$ 166.67	\$ 166.67	\$ 166.67	\$ 166.67											
<b>Total Monthly Payments for each year</b>			<b>\$ 1,386.20</b>	<b>\$ 1,404.77</b>	<b>\$ 1,423.42</b>	<b>\$ 1,442.10</b>	<b>\$ 1,460.81</b>	<b>\$ 1,479.57</b>											
<b>Total Payments Paid each Year (Monthly Payments * 12)</b>			<b>\$ 16,634.40</b>	<b>\$ 16,857.24</b>	<b>\$ 17,081.04</b>	<b>\$ 17,305.92</b>	<b>\$ 17,531.72</b>	<b>\$ 17,758.44</b>	<b>\$ 17,985.24</b>										
<b>Net Revenue (or other Expenses) Received from the end of each Year</b>			<b>\$ 73,074.84</b>	<b>\$ 74,076.00</b>	<b>\$ 75,077.16</b>	<b>\$ 76,078.32</b>	<b>\$ 77,079.48</b>	<b>\$ 78,080.64</b>	<b>\$ 79,081.80</b>										
Future Value of Inflow at the end of 5 years			\$ 387,077																
Seller Closing Cost % (Based on Future Loan Amount)	2.00%	0																	
Seller Commission Cost % (Based on Future Selling Price)	8.00%	0																	
Equity at the end of 5th (from calculation of the program)	\$ 75,202	0																	
<b>Total Cost of OWNING, converted to the Today's value, Net Present Value is</b>															<b>\$ 61,764.89</b>				
<b>Total Cost Savings with No Tax Deduction Advantages (e.g., deduction of Property Tax + Interest) of OWNING vs. RENTING, converted to the Today's value, Net Present Value is</b>															<b>\$ 22,615.85</b>				

RENTING COST										FINANCIAL CALCULATOR									
Calculating NPV based on the scenario from Rent_vs_Own.asp default case										NPV AND RR CALCULATION									
Item	Annual Increase	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total	NPV at 1%	EQY	Cash Flows	+	Sale Proceeds	NPV at 1%	Internal Rate of Return				
Application Fee	\$ 0.00	0									0	→	(\$1,480.00)						
Security Deposit + Pet Deposit (if any)	\$ 1,400.00	0	\$ 1,400.00								1	→	(\$16,757.11)	+					
Monthly Rent for each Year	\$ 1,400.00	0	\$ 1,400.00	\$ 1,400.00	\$ 1,400.00	\$ 1,400.00	\$ 1,400.00	\$ 1,400.00			2	→	(\$116,644.94)	+					
<b>Total Payments Paid each Year (Monthly Rent * 12)</b>			<b>\$ 16,800.00</b>	<b>\$ 16,800.00</b>	<b>\$ 16,800.00</b>	<b>\$ 16,800.00</b>	<b>\$ 16,800.00</b>	<b>\$ 16,800.00</b>	<b>\$ 16,800.00</b>										
<b>Net Present Value of Costs (Made back to the beginning of each Year)</b>			<b>\$ 15,737.11</b>	<b>\$ 16,046.96</b>	<b>\$ 16,356.81</b>	<b>\$ 16,666.67</b>	<b>\$ 16,976.52</b>	<b>\$ 17,286.37</b>	<b>\$ 17,596.22</b>										
Return of Security Deposit at the end of lease											10	→		+	\$1,400.00				
<b>Total Cost of RENTING, converted to the Today's value, Net Present Value is</b>															<b>\$ 84,581.74</b>				