

# Real Estate Report:

**Get out of the RENT trap! You're throwing money away by not owning your own home!**

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**By Thomas Lee**

Most people rent (instead of owning) because they're unsure if they will be living in their area very long. Or they just moved to the area, and want to get a "feel" for the market before they buy. For some, the idea of assuming the responsibility of a mortgage is a deterrent. Whatever the reason, STOP RENTING! Owning real estate is one of the most fabulous ways to build wealth!

## **The Power Of Leverage Can Give You Incredible Returns!**

You magnify your purchase power with what is called *leverage* – the use of borrowed money to purchase an asset that is likely to appreciate, magnifying your profit. When you buy a home and take out a mortgage (as most people do), you are borrowing money from the bank. Therefore, when your home appreciates, you keep the profit on a home you haven't even paid for!

***“Thanks to a provision in the tax bill of 1997, when you sell your home, \$250,000 of the profit from the sale of your home is tax free if you file a single tax return and \$500,000 of the profit is tax free if you file jointly!”***

This example clearly illustrates the power of leverage: If you were to pay all cash for a \$150,000 home, and you sold it for \$180,000, the \$30,000 in profit represents a 20% return on your original investment. However, suppose you took out a mortgage (like most buyers), and put a 10% cash down payment on your home. You paid \$150,000 for the home, and later sold it for \$180,000, making \$30,000 in profit. You made \$30,000 on a \$15,000 investment (your down payment)! That's a fabulous 200% return using the power of leverage! Why do you think people buy properties and rent them out? You pay the mortgage, while they use leverage to profit when the property appreciates.

## **Appreciate the word *Appreciation!***

The price you sell your home for, less the price you paid, is *appreciation*. Real estate normally appreciates at an average annual rate of 5%, providing you're not in a depressed market. Compared to the more speculative stock market, this represents a more reliable return on investment. And when you add the power of leverage, you can make 5% per year off borrowed money!

## **Owning A Home Is The Ultimate Tax Shelter!**

Consider the tax benefits that you are currently not enjoying by renting. As you're probably aware, the IRS does not allow you to write off your rent. When you make a mortgage payment, a portion of your monthly mortgage payment is interest expense on the loan, which is fully tax deductible! The good news is during the early years of repaying your mortgage, a large percent of your mortgage payment is interest (versus later in the loan, when you are paying down the home). Your tax deduction from writing off interest on your mortgage payments can be great! Furthermore, you can write off your annual property taxes and a portion of your closing costs.

### **Tax Bill of 1997**

Most importantly, thanks to a provision in the tax bill of 1997, when you sell your home, \$250,000 of the *profit* from the sale of your home is *tax free* if you file a single tax return and \$500,000 of the profit is tax free if you file jointly! In other words, you are most likely going to pocket all of the profit when you sell your home! Add leverage, price appreciation, and the fact that your profit (up to a certain amount) won't be taxed, and buying a home is simply one of the best investments you can make!

### **Let's Look Beyond The Finances: The Psychological Benefit Of Owning A Home**

The last time you started hammering a nail in the wall to hang up a picture, you were probably wondering if your landlord would disapprove. With home ownership, you are in control! You don't have to get permission to bang in a nail. If you want to make improvements, like fixing up the bathroom or remodeling the kitchen, this a project that you can control and enjoy. Most importantly, owning a home *is the American Dream!* The pride of ownership dates back to the founding of this country.

I hope this informational report was informative. As your local real estate professional, I am constantly aware of "good deals" on the market, and can help you determine what type of house and location is "right" for you. You can call me at any time for advice, and please remember that you are under no obligation or pressure of any kind. I would very much like to help you.

Best Regards,

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