

# DUDEK

## Major Purchases: Rent vs. Own & Lease vs. Buy

AKT Wealth Advisors, LP  
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# Dudek's Team



**Carl Pinkard, CFP®**

**Partner**

Carl has specialized in working with high-net worth families, business owners and medical practitioners, providing financial planning and consulting services for over a decade. He also works with pension committees and assists with a number of non-profit organizations. As a leader of our wealth team, Carl helps shape our comprehensive and integrative service model that provides investment management, financial planning and tax services to our clients. Carl graduated from California Polytechnic State University at San Luis Obispo with a Bachelor of Arts degree in Business with an emphasis in Finance. He is a member of the Financial Planning Association and the American Society of Pension Professionals & Actuaries (ASPPA). He currently sits on the board of North County Health Services, a community health clinic in San Diego.



**Brandon Kurz, CFP®**

**Wealth Manager**

Brandon started his financial planning career in Silicon Valley helping families, individuals, and businesses plan for their future. He aims to put an emphasis on educating his clients and always upholds a fiduciary standard when making recommendations. Brandon graduated from California State University Fullerton with a Bachelors in Business Administration, with a concentration in Finance. He is a CERTIFIED FINANCIAL PLANNER™ professional, has passed the Series 7, 66 and 65 securities licensing exams as well as the CA Life and Health license exam. He is also a member of the Financial Planning Association of San Diego.

# Dudek's Team



**Jeff Clark, CFP<sup>®</sup>, RICP<sup>®</sup>**  
**Retirement Plan Consultant**

Jeff has been working with individuals and families as they work towards achieving their financial goals. He wants to reach as many people as possible to help them get on the path to financial success. Jeff graduated from the United State Naval Academy and served for several years as a Lieutenant Commander in several different roles as an active duty member of the Navy. He went on to earn his MBA from the University of California, Irvine. He recently obtained the designation of Retirement Income Certified Professional (RICP<sup>®</sup>) from the American College of Financial Services.

# *Rent Vs. Own*



- There are many advantages and disadvantages to each strategy that will be covered
- Deeming one option more appropriate than another should be based on each person or couple's unique financial situation.

# ***Renting Considerations***

## **Advantages**

- Predictable Housing Costs
- Limited Maintenance
- Mobility
  - Advantageous for those who may need to move for work, change in income, etc.

## **Disadvantages**

- Lack of Customization
- Financial Disadvantage
  - No tax benefits
  - No equity being built
- Rent May Increase
  - No cap in most cases



# *Owning Considerations*

## Advantages

- Financial Advantages
  - Building equity and potential for appreciation
  - Tax benefits
  - Good for your credit
- Independence and Belonging
  - Stability
  - Community
- Low Interest Rates
- Inflation Protection

## Disadvantages

- Unexpected Expenses
- Limited Mobility
  - May be forced to sell at an inopportune time
  - Should be considered a long term investment
- Upfront costs
  - We recommend a 20% down payment

# Comparing Sunk Costs Example

## Rent

Rent - \$2,850/mo

X 12 Months

**\$34,200 annually**

## Own

Home Value - \$675,000

Mortgage - \$540,000 (20% down payment)  
30 year fixed at 4%. **Payment: \$2,569.47/mo**

Payment consists of two parts:

Principal of \$769.48 and Interest of **\$1,800/mo**

Property Tax – 1.179% - **\$1,006/mo**

Home Owners Insurance - **\$75/mo**

Home Owners Association – **\$200/mo**

Maintenance Costs – **\$200/mo**

**\$3,281/mo or \$39,372 annually before tax benefits. If we assume a 25% tax rate then our total would be approximately**

**\$30,954 annually**

\*This analysis doesn't take into consideration appreciation or the opportunity cost of the down payment

# Strategy

- Housing market is hot right now. Consider purchasing if your plan is to hold on to the property for at least **3-5 years**.
- It's a great time to leverage while rates are low.
- Make sure you consider all of the expenses of home ownership when considering purchasing a home and do **not** use every dollar you have to fund your down payment.
- When buying a condo or townhome with an HOA be sure to check out how well the association is funded/organized and if there are large special assessments planned for the community that you should factor into your overall cost.



# *Lease vs. Buy*

- Similarly to the last topic there are advantages and disadvantages to both strategies outlined in the coming slides but it's important to note that everyone's situation is different and this analysis is meant to give you some major points of consideration for each option.



# *Lease vs. Buy*

- **Lease:** Under a Car Lease, the financier purchases a car on behalf of the customer, and then leases the vehicle to the customer in return for monthly payments. These monthly payments are based on the depreciation of the car over the term of the loan instead of principal repayment which is why it is much lower than a standard auto loan.
- At the end of the term of the lease, the financier gives the customer the option to purchase the vehicle in return for a final installment value (residual value). The customer can also choose to “trade-in” the vehicle, return it, or refinance the residual and continue the lease.
- **Buy:** A customer purchases the vehicle either outright or with some sort of auto loan financing.

# *Leasing Considerations*

## Advantages

- Lower monthly payments with a low, or no, down payment
- No repair costs generally because you are under warranty
- You can more easily transition to a new car every two to three years, depending on your term
- There are no trade-in hassles at the end of the lease
- You pay less sales tax

## Disadvantages

- You don't own your car at the end of the lease
- You're limited on the amount of miles allowed per year
- Will be more expensive than buying in the long term.
- If the car isn't returned in reasonable condition there can be additional charges incurred when returned
  - No customization!
- You're locked into the lease term and it can be expensive to terminate early

# ***Buying Considerations***

## **Advantages**

- You own the car and you can do with it as you please
- If you plan to hold the car for the long run you will ultimately pay less
- No mileage cap
- You have the flexibility of selling when you want
- Building equity with monthly payments to help with purchase of your next vehicle

## **Disadvantages**

- Will require a higher down payment to avoid the car initially depreciating lower than the car is actually worth.
- Once you're outside of the warranty period you are responsible for the repairs
- More of your once liquid assets are tied up in a depreciating asset

# Strategy

- If you would like to drive a **new luxury car** every of couple of years or are considering an **electric vehicle** that may be obsolete due to new technology in a few years, then taking out a long term loan will leave you having paid so much in finances charges compared to principal that you may have well just leased the car instead.
- If you decide on taking a long term loan (generally 3-6 years) to buy a car, the goal is to hold on to the vehicle until it's paid off. However, if the opportunity to drive a new vehicle every few years with little hassles are worth the extra cost to you then consider leasing.
- The longer the loan term you choose will ultimately lower your monthly payment but it can open up the potential to get “up-side down” on your loan, which is where the value of the car drops below your loan amount.

# Have a decision to make soon?

# GIVE US A CALL!

OR

Come to our Dudek office hours held every **Friday from 9am-11am.**

The office hours are available through Skype at the username below:

Skype name - **AKTwealthadvisors**

# Questions



# Next Steps and Resources

- Brandon Kurz – [bkurz@wealthadvisors.com](mailto:bkurz@wealthadvisors.com)
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