



THE DANGERS IN WAITING TO PURCHASE A HOME

The most common reasons I hear for not purchasing a new home is “prices are too high,” “I’m not ready,” or “I’m waiting for prices to come down lower.” And so they wait while others buy. Waiting on a home purchase may very well be one of the worst financial decisions one could ever make. That’s why my advice to buyers (whether buying from Patterson Construction or from someone else) is always to buy now and not wait – and here’s why:

Since the Great Depression, this nation has seen average inflation rate of about 7% per year. A 7.0% inflation rate caused prices to double almost every 10 years, as the following table shows:*

<u>Year</u>	<u>Factory wages per hour</u>	<u>Average home price</u>	<u>Rent per month</u>
1935	\$ 0.20	\$ 1,500.00	\$ 15.00
1945	.55	3,125.00	31.00
1955	1.15	6,250.00	62.00
1965	2.30	12,500.00	125.00
1975	4.60	25,000.00	220.00
1985	9.20	50,000.00	400.00
1995	18.40	100,000.00	800.00
2005	36.00	200,000.00	1,600.00

These figures are amazingly true -- and that’s scary, especially when this kind of inflation occurred during a relatively stable government spending era and government debt was modest compared to today’s debt.

Sooner or later, one must get on this inflation bandwagon and ride. Keep in mind that most economists and lenders predict a prosperous future. Yet think of what a relative modest inflation rate will do in the future. Assume we have a 7% average inflation for the next 40 years, here is what will happen:

<u>Year</u>	<u>Factory wages per hour</u>	<u>Average home price</u>	<u>Rent per month</u>	<u>Mortgage payment</u>
2005	\$ 36.00	\$ 200,000.00	\$ 1,600.00	\$1,167.48 **
2015	70.00	400,000.00	3,000.00	1,167.48
2025	140.00	800,000.00	6,000.00	1,167.48
2035	280.00	1,600,000.00	12,000.00	1,167.48
2045	560.00	3,200,000.00	24,000.00	1,167.48

Though these figures are staggering and hard to believe, one better believe them -- because they will happen. And this is with an average inflation rate. Just think of the dangers if we experience “hyperinflation.” That’s why it’s critical to BUY NOW while you can or you’ll be left behind wishing you could own a home.

I’ve grown up in the building industry, I remember well my dad telling me these same figures and I thought how they would never happen. But they have and they will continue to do so. Sure, there will be adjustments and even down turns, but then the cycle will start again.

I still remember my dad telling me “when it’s all said and done that a home is usually a person’s best financial investment they ever make in their life.” I’ve since come to know that’s true. What other investment to you get to live in, write off in taxes credits, increases in value, and you eventually own it by paying it off?

Again, to sum up the dangers in waiting on a home purchase:

- 1) **Waiting** could be disastrous since these figures are now doubling at phenomenal amounts.
- 2) **Waiting** will only curtail your very ability to save as rents are destined for sharp increases.
- 3) **Waiting** is unwise when interest rates are at a 30 - 40 year low. One can simply not save as fast as interest rates can increase. For example, just a 1% increase is equivalent to increasing the sales price \$30,000.00 or one would have to bring in an additional \$30,000.00 to keep the same payment.
- 4) **Waiting** defers any tax credit for interest deduction on your home payment.
- 5) **Waiting** only means you’ll pay more tomorrow when you could have paid significantly less.
- 6) **Waiting** only means you have not protected yourself from damages of average inflation, let alone hyperinflation!
- 7) **Waiting** could very well cost you the ability of ever purchasing a home.

Ultimately it’s up to you to buy now or wait. So whether you buy from Patterson Construction or elsewhere, my strong advice is – if at all possible -- BUY NOW! If you do (as the years go buy) you’ll be glad you did make the biggest financial investment and decision of your life.

Good Luck!

James Patterson

* (Here is a simple rule you can apply. It’s called the “Rule of 72.” When you divide the figure “72” by the yearly inflation rate, you can determine how many years it will take for the value of a house or an investment to double. Example: Divide the figure 72 by 7% inflation rate and you get 10.28 years. Thus, in 10.28 years a \$100,000.00 home or investment will be worth \$200,000.00.)

**Payment is principle and interest only on \$200,000.00 loan about at 6.5% rate.