

A 10 Year Financial Comparison of Renting versus a Cooperative Home

It can be a struggle at an older age deciding about what is the best solution for what likely is your final residence. Part of the struggle is determining the financial consequences of it. Here is an attempt to provide a method of evaluation. When choosing to downsize from a Single-Family Home to a Condominium or Apartment there are several financial considerations. Among them are:

1. What do you plan to do with the equity from the sale of your home?
2. What will the impact of inflation be on rent or fees?
3. What expense items are included as part of the rent or fee?
4. What degree of control do you have over your home expenses?
5. Will you need funds for assisted living in the event of health changes?
6. How important is it to leave Heirs some inheritance?

In most cases, it is impossible to predict exactly what may happen. Nevertheless, it is wise to consider where housing expenses might be headed and what might be possible. Comparing annual rental costs to an annual cooperative maintenance fee is the first place to begin.

For purposes of this exercise, it is assumed the only utility cost for the Renter, or the Cooperative Shareholder is electricity. The monthly rent or fee includes the costs of Internet Service, Subscription Television, Water/Sewer, Heating, Garbage Collection, Pest Control, Lawncare, and Snow Removal. It is also assumed that each option offers property management, maintenance repairs or replacement, restricted building access, and amenities that hobbies, promote fitness and socialization.

For comparison purposes, the following assumptions are that the annual inflation rate will be .02 per cent annually, the rate of interest or dividend return on the home equity saved will average 0.035 percent annually, and a cooperative share will grow 0.011 percent annually.

Assumptions

Annual Inflation Percentage:	0.02	Rate of Return on Equity:	0.035
Equity from Sale of Home:	\$300,000	Share Appreciation Percentage Rate:	0.011
Cooperative Share Price:	\$170,000	Start Year:	2024
Shareholder Equity to Invest	\$130,000		

On page two is a chart that projects rents and fees over 10 years. Keep in mind that purchase of a Share is a requirement of the Cooperative.¹ Cooperative homes and apartments vary in square footage and costs per square foot, so the chart is an attempt at an apple-to-apple comparison with a premium independent living, age 55+ facility in Ankeny Iowa. The monthly amounts for rent or fee are based on the Ankeny Iowa rates beginning in 2024 and are from information found websites². The chart is intended to help you in estimating the long-term trend in housing expenses for rent or fees. The actual amounts could be greater or less than the projection.

¹A shareholder does not have a mortgage. The Cooperative holds any mortgage, and the monthly fee includes a portion to cover the costs of a mortgage.

² Zillow and Apartments.com

10 Year Rent and Fee Projection

	Apartment		Cooperative	Locust		
	2024 Initial Monthly Rent or Fee:	\$2,645	2024 Initial Monthly Rent or Fee:	\$2,001		
	Number of Square Feet:	1370	Number of Square Feet:	1373		
	Square Foot Cost:	\$1.93	Square Foot Cost:	\$1.46		
10 Year Rent & Fee Projection	Annual Rent	Equity Growth	Annual Cooperative Fee	Equity Growth + Share Growth	Equity Growth	Share Growth
1 - 2024		\$300,000		\$300,000	\$130,000	\$170,000
12 - 2024	\$31,740	\$310,500	\$24,012	\$306,420	\$134,550	\$171,870
2025	\$32,375	\$321,368	\$24,492	\$313,020	\$139,259	\$173,761
2026	\$33,022	\$332,615	\$24,982	\$319,805	\$144,133	\$175,672
2027	\$33,683	\$344,257	\$25,482	\$326,782	\$149,178	\$177,604
2028	\$34,356	\$356,306	\$25,991	\$333,957	\$154,399	\$179,558
2029	\$35,044	\$368,777	\$26,511	\$341,336	\$159,803	\$181,533
2030	\$35,744	\$381,684	\$27,041	\$348,926	\$165,396	\$183,530
2031	\$36,459	\$395,043	\$27,582	\$356,734	\$171,185	\$185,549
2032	\$37,188	\$408,869	\$28,134	\$364,766	\$177,177	\$187,590
2033	\$341,352	\$423,180	\$258,240	\$373,031	\$183,378	\$189,653

Why is this chart helpful? It provides a method to objectively evaluate if purchasing a cooperative share is preferable to renting an apartment. Will investing all your home equity into a low-risk interest bearing account of 3.5% be better than using part of it to buy a cooperative share to pay less per month than renting?

When someone decides to downsize from a single-family home to a condominium or an apartment, they generally come away from the sale of their home with a significant amount of money that can be invested or placed in low risks savings instruments. In the case where they elect to purchase a condominium some of the home equity can be used to pay for a cooperative share. For illustration purposes a home seller comes away from the sale of their home with \$300,000.

Now look at what happens to \$300,000 when it is invested at 3.5% for 10 years and what happens when \$170,000 of the \$300,000 is used to purchase a cooperative share and the remaining equity. It is obvious that the individual that elected to rent rather than buy a cooperative share ended up with more equity growth than the individual that elected to be a cooperative shareholder. In the exercise the Renter's equity at 3.5% annual rate grew to (\$423,180) versus the Shareholder's equity at (\$183,378) or a difference of (\$239,802). The exercise does not end here, however.

What must be remembered is the shareholder has a share that grew in value to (\$189,653). The sum of the shareholder's equity growth and the share's growth is (\$373,031). The difference between the Renter's Equity Growth and the shareholder's assets narrows to \$50,149.

Now let's go back to see how much money the renter would pay for rent above what the shareholder would pay in cooperative fees over a 10-year period on page 3.

Comparison Results

2033	\$341,352	\$423,180	\$258,240	\$373,031	\$183,378	\$189,653
	Difference Between Rent & Fee:	\$83,112	Difference Between Rent & Fee:	\$0		
	Equity Growth - Rent Difference:	\$340,068	(Equity Growth + Share Growth) - Rent Difference:	\$373,031		
	Rent vs Fee Difference:	\$0	Rent vs Fee Difference:	\$83,112		
	10 Year Asset Projection	\$340,068	10 Year Asset Projection	\$456,143		

- The Renter paid (\$83,112) more in rent than the shareholder did in fees in the projection.
- For this exercise it was assumed that both the renter and shareholder had monthly income to cover the rent or fee every month without having to draw from the home equity.
- If you subtract the Difference Between Rent & Fee; (\$83,112) from the value of the Renter's Equity Growth; (\$423,180), the shareholder ends up substantially better in terms of personal assets; (\$373,031) versus (\$340,068) for the Renter.
- Another approach is to add the Difference Between Rent & Fee; (\$83,112) to the shareholder's Equity Growth + Share Growth - Rent Difference (\$373,031). If the shareholder saved the Difference Between Rent & Fee (\$83,112) it would produce assets greater for the cooperative shareholder (\$456,143) versus (\$340,068) for the Renter.

Conclusion:

It is a personal decision about what is the appropriate choice when downsizing to an apartment or a condominium. There are advantages to being a Renter over being a Cooperative Shareholder when it comes to the ease of mobility and having a lot of choices in finding a monthly rental rate that is affordable. The biggest advantage for a cooperative shareholder is that a cooperative is a not-for-profit organization. As such, it can offer less expensive premium housing with a high degree of amenities and safety.

Finally, if you are approaching retirement or are retired do you know what per cent of your gross income is needed for housing? You may want to visit this Web Page: <https://www.cnbc.com/2021/07/14/how-much-of-your-income-you-should-spend-on-housing.html> . According to the article "The most common rule of thumb to determine how much you can afford to spend on housing is that it should be no more than 30% of your gross monthly income, which is your total income before taxes or other deductions are taken out." As rents and fees rise due to inflation you must be careful to try to plan accordingly.

This document was written for the Vintage Cooperative of Ankeny, 1250 SW Magazine Rd., Ankeny Iowa.

