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Personal Finance

13 Mar 2021

### Purchase Decision Project

For this purchase decision project, I choose Scenario #2—buying my first home. I will provide a detailed and thorough analysis about my house purchase decision.

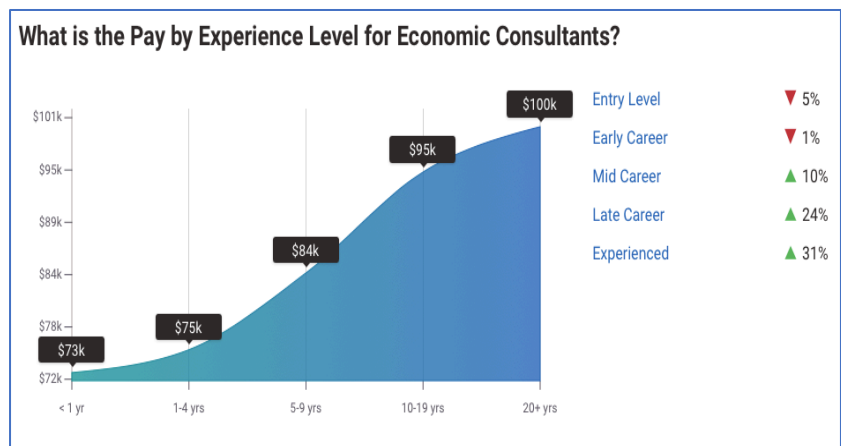
### Career/ Salary & Expenses Circumstances

First let me start off by referring back to my position and salary that I developed for personal Budget Project. After getting my bachelor’s degree of Economics from Agnes Scott, I become an Economic Consultant. According to the Balance Career website: I will get \$63,000 per year during the first few years of my career (Profita), and according to Pay Scale: it builds on as my work experiences grows by a certain percentage as the graph shown below right (PayScale).

#### Personal Monthly Budget

Total Projected Cost	\$3,042.50
Total Actual Cost	\$2,456.50
Total Difference	\$586.00

Projected Balance (Projected income minus expenses)	\$2,707.50
Actual Balance (Actual income minus expenses)	\$3,093.50
Difference (Actual minus projected)	\$386.00



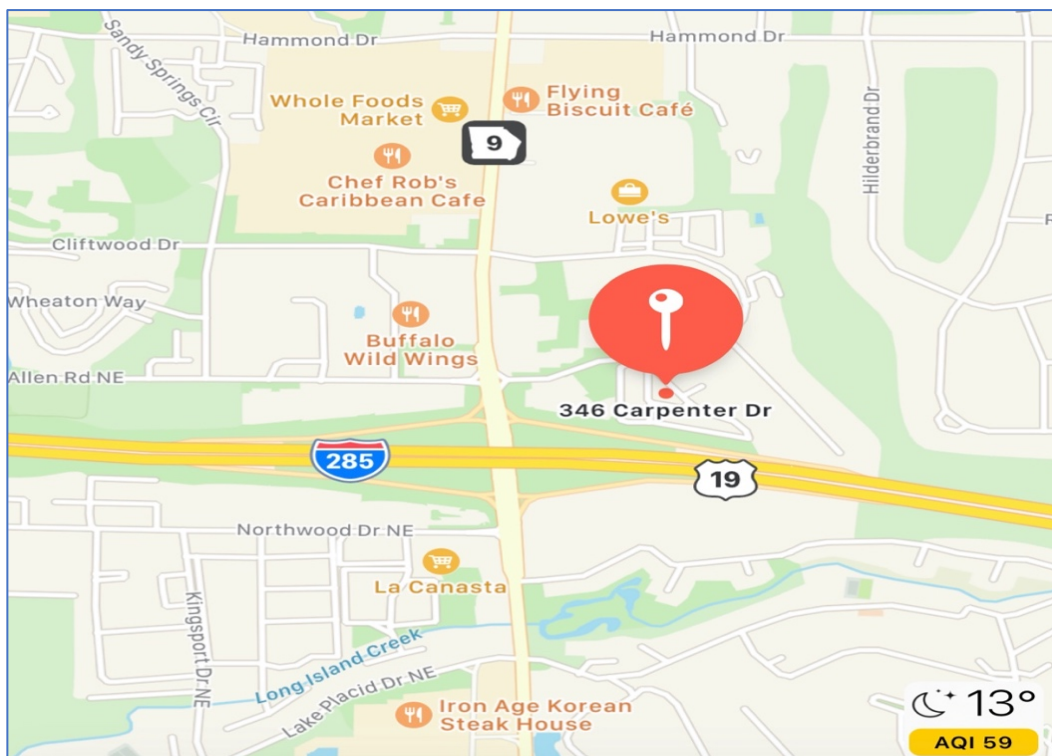
As projected in my personal budget project (graph shown above left), my monthly income with salary and extra income from stock is approximately \$5,750, and my monthly expense is approximately \$3,042.5. My projected monthly balance would be \$2707.5 for the first few year of my career. Let’s say it will increase at a rate of 10% every 5 years. The first year I would save about \$32,490, the first 5 years I would have \$162,450; The 10<sup>th</sup> year of my career I would save approximately \$341,145.

## Purpose & Preferences of First Home

After the prediction of my future salary and living expenses, let me show you a house of my choice, along with my purpose and preference of purchase my first home. So, this is a 2 bedroom- 2-bathroom condo of 1,273 square ft, cost \$185,000 total. Here are the pictures of the actual house and neighborhood, I think it's pretty clean and nice compared to those within the same price range.



This is the address of the condo: **346 Carpenter Dr APT 45, Sandy Springs, GA 30328**. The location of my first home is very important. Sandy Springs, Georgia has lots of big companies, and at the same time, the housing price is way cheaper than downtown Atlanta, so that location would be my first choice. Beside the fact that it is close to my working place, Sandy Spring also attracts me with a low crime rate, according to AJC Atlanta. News. Now: “A new report ranked America’s safest cities based on crime rates, Sandy Springs was the only Georgia city to make the list. There’s 1 in 765 chance of crime in Sandy Springs, but there’s 1 in 294 chance of crime in Georgia” (Kueppers). As you can see the crime rate in Sandy Spring is 2.6 times less than that in a state level. Who doesn’t want a safe environment to live in? Moreover, as someone who doesn’t have a family, a house and a townhouse would be too large for my demand of space, an apartment has less privacy and is defined as a residence that is rented, therefore a condo would be the best choice for me, which is also a more affordable entry point to homeownership. I wish to find a roommate and rent the other bedroom to her (I will talk about the benefit of finding a roommate in later paragraph), so that is why I choose this 2 bedroom- 2-bathroom condo. Last but not least, it is very convenient traffic wise. As the first picture above shown, every condo owner will receive a parking spot, that way I can save a lot of time finding a place to park my car every day. As I type in the address into the map, there are lots of great restaurants near this condo, most of them are 20-min-walking-distances/5-min-driving-distance. And not to mention it is super close to I-285, I can go to Downtown Atlanta in 15 minutes. How convenient! So, these would be my reasons of choosing this particular condo with these purposes and preferences.



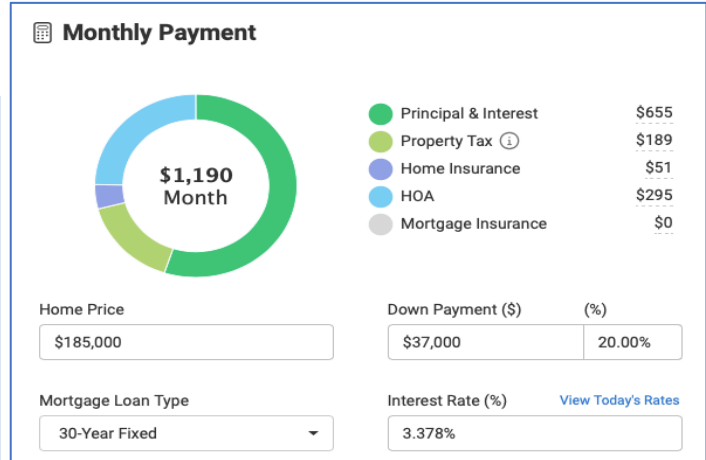
## Actual Calculation

Now, I have made my decision on this particular condo, let's calculate some real numbers. As we learned during chapter 9, No PMI is needed if I pay 20% down payment, so that is what I choose to do so, which is  $\$185,000 \times 20\% = \$37,000$ .

After figuring out the down payment, I need to find out my mortgage loan as a first-time home buyer. According to Experian website, "the average credit score for 23- to 29-year-olds is 660" (McGurran). Then I plug in my down payment and my estimated credit score into this loan calculator, and I found out that I will get an annual percentage rate of 3.378%. After that, I plug in all these numbers to find out my monthly payment (excluding living expenses and utilities), which is \$655 (Principal & Interest) + \$189 (Property tax) + \$51 (Home Insurance) + \$295 (HOA) + \$0 (Mortgage Insurance) = \$1,190 per month.

Referring back to my personal budget project, my projected monthly balance is \$2707.5, and I can also add my old rental fee of \$396, and the rental fee of my roommate which is \$875 (because similar housing monthly rental fee would be \$1,750 for 2b2b in below section, half of that would be \$875, thus it's reasonable). So now my monthly balance would be  $\$2707.5 - \$1190 + 396 + 875 = \$2788.5$  which is even higher than my balance before I purchase this condo.

Credit Scores by Age		
Age Range	Average FICO® Score Q2 2015	Average FICO® Score Q2 2019
23 to 29*	660	660
30 to 39	652	672
40 to 49	667	683



**step ONE**  
Select the type of loan

**step TWO**  
Select the state you live in

**step THREE**  
Enter the loan principal amount

FICO Score	APR	Monthly Payment	Total Interest Paid
760-850	2.764 %	\$605	\$69,906
700-759	2.986 %	\$623	\$76,229
680-699	3.164 %	\$637	\$81,371
660-679	3.378 %	\$655	\$87,637
640-659	3.809 %	\$690	\$100,535
620-639	4.356 %	\$737	\$117,422

**step FOUR**  
Select your current FICO Score range

- If your score changes to 760-850, you could save an extra \$17,731
- If your score changes to 700-759, you could save an extra \$11,409
- If your score changes to 680-699, you could save an extra \$6,267
- If your score changes to 640-659, you could pay an extra \$12,898

## The Time It Takes to Save Enough Money

The down payment I chose is 20%, which is \$37,000. With my annual salary, I can even buy this condo within the first year of my career, but I wouldn't do that. As we learned in chapter 9, Step 4 of home buying process: the guidelines for affordability of your home should be no more than 2.5 times your gross income. My annual income is \$63,000 for the first few years of my career.  $\$63,000 \times 2.5 = \$157,500$  As stated in above section, my down payment is \$37,000, the loan amount would be \$148,000. Yes, my annual income is enough for the monthly loan, but I don't have any saving for down payment.

Thus, I wish to work for at least 3 years to save my money for down payment first. According to my projected monthly balance in personal budget project, it is \$ 2,707.5 per month. After 3 years of working mins living expenses, I will save  $3 \times 12 \times \$2,707.5 = \$97,470$ . My down payment is \$37,000, which is only 2/5 of my saving after 3 years of working. Then my salary will probably increase due to the gain of work experience. After this down payment, to fit the rule of thumb, my annual salary needs to be more than  $\$148,000 / 2.5 = \$59,200$  And now it is totally achievable. Therefore, I decided to buy this condo three years after I find a job with my bachelor's degree of Economics from Agnes Scott.

## Buying a Home v.s. Renting One

To best compare the pros and cons of buying a condo and renting one, I find a condo with approximately same area within the same location. The address is: **6851 Roswell Rd, Sandy Springs, GA 30328**. This is also a 2 bedroom- 2-bathroom condo, with an area of 1,000 square ft, its monthly rental fee costs \$1,750.



I think buying a home is better than renting one, here are the reasons why:

- Restrictions regarding pets and decorating for renter
- Costs including a security deposit, utilities, and renter’s insurance for renter
- Renters lose tax advantages and equity growth
- Limits regarding remodeling for renters
- Pride of ownership/ American Dream/ Stability of location
- Deduct property taxes and mortgage interest
- Potential increase in value of your home
- Building equity in your home

These are the general pros and cons that we learned during class. Here are some real numbers that can really prove my statement. From my Personal budget project, I rent an apartment of \$396 per month, which is considered bad living condition. Let’s just say that the utility stays the same, so we are not putting it into the calculation. For this 2b2b condo, my monthly payment is \$1,190 per month including Principal& Interest, Property tax, Home Insurance, and HOA. With the same condo within Sandy Springs location that I found above, has a monthly rental fee of \$1,750, thus I will charge my roommate who lives with me in my 2b2b condo monthly rental fee of \$875. So, after I buy this condo, my living condition went so much higher, and at the same time I gained  $\$396 + \$ 875 - \$1,190 = \$81$  per month from moving out of my old, rented apartment. Why didn’t I do it in the first place? Because I need to save money for down payment, I lived in cheap apartment for few years just to save money. Now that I have a better living condition so the monthly rental fee for this condo can be much higher than the one I rented before and also I can make profit from my roommate, so it is a double benefit for me—I have ownership and at the same time I earn 80 dollars per month.

HOUSING	Projected Cost	Actual Cost	Difference
Rent	\$396.00	\$396.00	\$0.00
Phone	\$30.00	\$30.00	\$0.00
Electricity	\$65.00	\$58.00	\$7.00
Gas	\$80.00	\$75.00	\$5.00
Water and sewer	\$17.00	\$20.00	-\$3.00
Cable	\$56.60	\$56.60	\$0.00
Waste removal	\$12.00	\$12.00	\$0.00
Maintenance or repairs	\$50.00	\$0.00	\$50.00
<b>Subtotal</b>	<b>\$706.60</b>	<b>\$647.60</b>	<b>\$59.00</b>

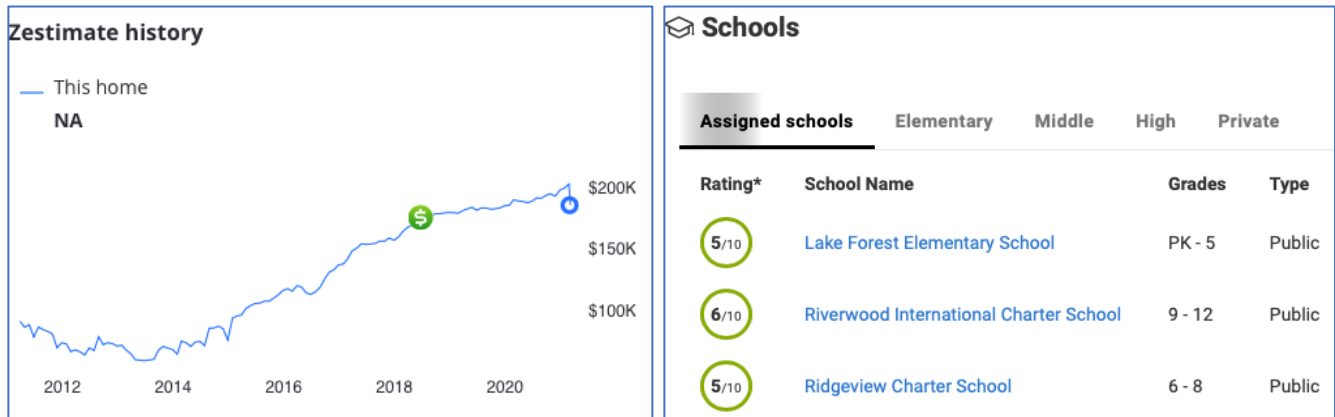
### 6851 Roswell Rd Condo ♥

6851 Roswell Rd, Atlanta, GA 30328 - [Map](#) - [Atlanta](#)

🕒 Last Updated: 1 Day Ago

Monthly Rent <b>\$1,750</b>	Bedrooms <b>2 Beds</b>	Bathrooms <b>2 Baths</b>	Sq. Ft. <b>1,000 sq. ft.</b>
<b>Beds</b>	<b>Baths</b>	<b>Rent</b>	<b>Sq. Ft.</b>
<a href="#">2 Bedrooms</a>	2 Bathrooms	\$1,750	1,000

## Investment Purpose



The graph above is the increases of the property value. From 2018 to 2020, it went from \$156K to \$185K, an average of 9.29% per year. I wouldn't say it is a huge increase, but it is a pretty safe and decent increase in value that satisfy my demand. According to Patch website, "Sandy Springs ranked 29th on the consumer finance site WalletHub's list of Fastest Growing Cities in America" (Adam). If I don't do anything with that money, I wouldn't gain a cent, so invest in buying this condo would somehow give me some money in turn, or at least cancel out the inflation rate for my living expenses. According to Statista: "In 2019, the average inflation rate in Georgia amounted to about 4.85 percent compared to the previous year" (Statista). So, the increase in the property value is approximately twice the inflation rate, it's definitely worth to invest.

Besides the increasing value of the property, I will mostly benefit from the rental fee I charge my roommate. That is the reason why I would choose to purchase a 2 bedroom- 2-bathroom condo for me as a single woman. That rental fee can cover part of my monthly cost. And when I change location and move out from that condo, I wouldn't choose to sell it, because increase of property value doesn't give my more return than the rental fees. I would rent my room to another person. Then I will have double the amount of rental fees I had before, ( $2 \times \$875 = \$1,750$ ) and I can use the extra money to cover my own rental fee somewhere else if I move to another location. I will definitely move out of this condo once I start a family because the school nearby has a pretty low rate, which once again benefit me as a single person on the cost of purchasing this condo. This condo would be rented to single person like me who are working temperately in Sandy Spring area for few years. I will keep this condo for rental purpose probably life-long and make profit out of it. I think this is a safer investment than the stock market.

## Conclusion

Therefore, I decide to purchase this 2b2b condo of \$185,000, with 20% down payment, 3.378% APR, 30 years of fixed mortgage loan, approximately at age of 26, which is 3 years after working as an Economic Consultant, having at least \$97,000 saved from my salary mins my living expenses to pay the down payment. Then I can pay \$1,190 for monthly cost for this condo. That way my living quality won't be negatively effected because of the purchase of this condo, and also can be profitable by finding a roommate.

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