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What Does it Cost to Live in Your House?

by Steven Podnos, Md, Cfp • July 27, 2015 • 1 min read • [original](#)

Families I work with are often surprised when we discuss how much it costs to live in their homes. I tell most people that it costs up to 10 percent of the value of a home to live in it each year.

How so?

The first and major cost is the use of the money. Whether you borrow 100 percent or make an all- cash purchase, you are incurring a cost of between 4 percent and 6 percent over the long term. If you borrow, this cost is easy to see— it is your mortgage rate, i.e. the “rent” for the money. If you pay all cash instead, there is an opportunity cost— in that the money could have been invested for long-term gains. It seems reasonable to measure the opportunity cost as the long-term return of a balanced portfolio (figure between 4 percent and 6 percent conservatively).

Next comes taxes and insurance. Both of these outlays vary widely in different locales, but figure on a total between 1 percent and 2 percent a year (usually closer to 2 percent).

How about repairs, maintenance, and deferred maintenance (a new roof every so often, new air conditioning units, etc.)? Again, these costs are variable in different locales and vary per year, but figure between one-half and 1 percent annually.

Then there are the harder to quantify costs such as increased utilities and maintenance related to the fact that we tend to own “bigger and nicer” than we would rent.

A final cost to consider is the possibility that the home may decrease in value while you own it. Many learned this lesson the hard way a few years ago. Even over the long term, residential real estate tends to appreciate at most between 1 percent and 2 percent a year.

When you buy and sell the home, you will incur transaction costs. Selling the house is usually more expensive, but both transactions are pricey. Selling can easily cost up to another 10 percent of the value. A common realtor commission is 6 percent, and when you add in document stamps, title insurance, and repairs, you’ll be pushing up to that 10 percent outlay.

Keep these costs in mind when you evaluate renting vs. buying. Also keep them in mind when you evaluate whether you can afford to live in the house you would like to.

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