

PRICE & CO. REAL ESTATE

4/6/2020

First Time Home Buyers

The True Cost of Owning a Home



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Introduction

*****NOTE: This was written prior to the coronavirus outbreak and economic downturn so numbers (i.e. Interest Rates & Economy Stats) need to be re-considered based on current & personal situations which have been impacted by the pandemic*****

Congratulations on embarking on this exciting journey in finding your first home! There can only be one “first” home in your adult life so it’s a special decision to find the correct one and start off on the right foot! We hope this is just the beginning of many successful real estate ventures in your life and here at Price & Co., we hope that the experience has been a rewarding one so far. Whether you are still searching for that perfect property, have an offer pending, or are currently in the closing process, we are excited to assist you on your journey in finding your first home!

It is our mission at Price & Co. to arm our clients with the most knowledge as possible in order to prepare them on what they can expect after they move in. In addition to the normal financials of your mortgage, below is an intuitive report detailing some the expense you will most certainly run into over the years.

BEFORE CONTINUING...

Price Don't be scared! Most of these items are things you have likely discussed with your realtor already. This report was built around industry standards, market research, and historical averages, which means these are **normal** items which almost every homeowner has run into

Price Please note that these figures were based on the average costs associated with a **15-year-old, 3 bedroom & 2 bathroom** single-family home in the **suburbs** of the **Denver Metro** area in **2019**. These figures are subject to change over time and vary depending on the dynamics of your residence. If you have any specific questions or would like similar figures on a different type of property, please don't hesitate to reach to us. One of our agents would be happy to supply you with further details

Price According to industry reports, the average homebuyer spends about 40% of their income on their home. About 30% of this allocation goes towards the mortgage but the other **10% towards utilities and other housing expenditures** (Quicken, 2019). Now, for First Time Home Buyers, this ratio can be considerably higher because there are initial

expenses which need to be accounted for. This report will detail how that extra 10% gets divided out

Price The first thing a First Time Home Buyer can do in preparation for these expenditures is to understand **when** and **where** these expenses are going to come. This will allow them to save ahead of time and not be surprised when they come up

Pre-Move In Expenses

Price Before you even step foot into your new home, remember that you'll need to pack, move, and unload *all* your items and this expense can be very large, especially if you are moving from a long distance away. The average cost for a **two-day U-Haul truck**, accommodating a 3-bedroom home in Denver, is **\$143 on average**, excluding the cost of gas (U-Haul, 2020). Plus, don't forget the costs of pizza and drinks for your gracious friends and family who are helping you move!

26' truck



3 Bedroom Home to 4 Bedroom Home

- Inside dimensions: 26'5" x 7'8" x 8'3" (LxWxH)
- Door opening: 7'3" x 6'10" (WxH)
- Deck height: 2' 9" Length 23'5"
- EZ-Load Ramp

\$143.00

☐ Tow my car

Select 

Price But the expenses don't just stop at the truck itself, you'll have to also consider the costs for boxes, packaging, bubble wrap, cleaning supplies, and the time associated with doing all this

Price If you'd like to hire professional movers, this can cost between **\$500 and \$1,400** with an average rate of **\$25 to \$50 per hour**. The cost to move from another state averages about **\$1,000 per room**, with an average cost of 50 cents per pound (Moving, 2019)

Price & Co. Tips

Price **Start** the packing process the moment you **begin house hunting**. Being starting to box up items which you don't use daily, you'll thank yourself later by saving the time & headache on move in day

Price Also, moving is a great time to assess all your items and figure out what items you do not need anymore. **Donating** items to charity is **tax deductible** and will lighten the load of the move

Move In Expenses

Price You turn the front door key to open your new home for the first time as the owner & a rush of exhilaration fills the air. The long process of finding and purchasing your first home is now over.... We'll not really. Sorry to burst your excitement bubble but realistically, the first thing you are going to see when you walk in is well, nothing. No furniture on the carpet, no art on the walls, no heat or AC in the air... no nothing! Now, this is obviously completely normal and you don't need to rush out and buy everything right away BUT you certainly will want to ensure you have the basics covered in order to feel comfortable living in your new home. Some of the big item you'll **likely want to purchase right away** include:

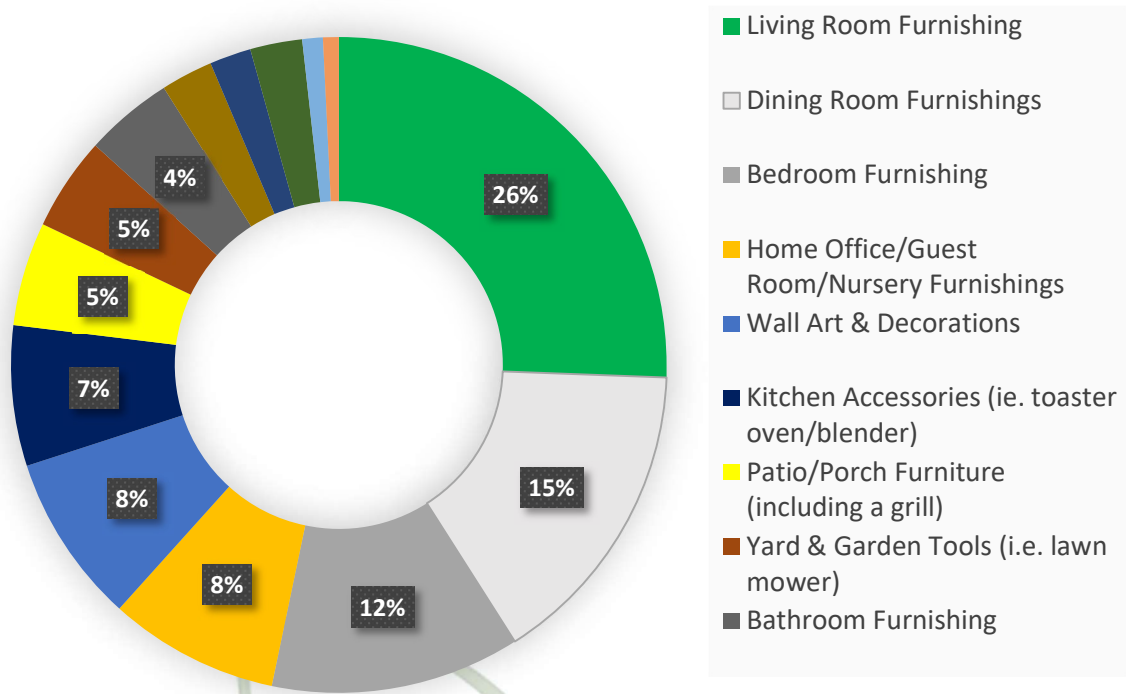
Purchases Upon Move In	Est. Cost
Living Room Furnishing	\$ 2,500
Dining Room Furnishings	\$ 1,500
Bedroom Furnishing	\$ 1,200
Home Office/Guest Room/Nursery Furnishings	\$ 820
Wall Art & Decorations	\$ 815
Kitchen Accessories (ie. toaster oven/blender)	\$ 675
Patio/Porch Furniture (including a grill)	\$ 500
Yard & Garden Tools (i.e. lawn mower)	\$ 450
Bathroom Furnishing	\$ 425
Small Items	\$ 250
Cleaning Tools & Supplies (i.e. vacuum)	\$ 200
Cable & Internet Set Up (i.e. router/dish)	\$ 250
Changling the Locks	\$ 100
Home Security	\$ 75
Grand Total	\$ 9,760

Advice As you can see, is easy to quickly see how these expenses can add up to almost **\$10,000** and most of these items are **non-negotiable**. If you are not prepared to absorb the initial costs of expenses upon move in, you will quickly find your monthly credit card payment to be much larger than you are used to. These “little” expenses can often be overlooked by first time home buyers because this is their first home and they don’t truly understand the costs of ownership

Advice Now, not every room has to be furnished right away and we advise that you don’t rush into filling all the needs at once but there **will be crucial items** which you cannot wait on and being that you have never owned a property prior to this one, **you likely don’t already have most of these items** to cover the entire properties needs. After likely spending your life savings on the down payment, don’t let these expenses catch you off guard

Advice Nearly **half** of your initial “move-in” expenses will be allocated towards the furnishing of the **bedroom, living room, and bathroom**. Additionally, if you have a finished **basement**, that is another large space which you’ll want to account for

Move In Expenses




Advice One area which often gets overlooked is the cost to maintain the **lawn, yard, and garden**. Most First Time Homeowners have never had to care for their yard because their previous landlords were on the hook for maintaining. If you decide to contract the lawn out, it's going to cost you about **\$100 or so a month**, plus another \$100 a month for weed killer, pest control, and fertilizer


Advice If you decide to do it yourself, you'll need to consider the following purchases:


- Lawnmower
- Weed whacker
- Hedge trimmers
- Sprinkler lines
- Hose
- Rake
- Gloves

- Buckets
- *Adding more trees, bushes, shrubs, and flowers are not cheap either!*

Price & Co. Tips


 For items in which you don't mind being second hand (i.e. lawnmower, ladder, grill, televisions, mattress frame) websites such as **Craigslist, Facebook Marketplace, NextDoor, and OfferUp** can be great resources for saving big bucks on normally high price items

 Don't get **too** cheap. Purchase quality furnishings which you will be happy with for several years. Otherwise, purchasing cheap or ugly furniture will cause you to replace the items sooner than expected. Thus, **costing you more money in the long run!**

 You should already have the dimensions of the living spaces in your home so if you are planning on **ordering new or custom furniture, do this several weeks before move in.** You can tell the delivery company about your exact move-in date and most furniture outlet can delay deliveries until the customer is ready. Some furniture can take several weeks to order, process, and deliver so don't get caught off guard and having to sleep on an air mattress for an extended period!



Utilities

 The average utility bill in Denver, including electric, heat, and water, is **\$116.52** (Numeo, 2019) but can fluctuate depending on the time of year. The below chart **breaks down energy** use for common appliances, basing energy use on average conditions (Silicon, 2019)

Appliance	Est. Energy Usage	Est. Energy Cost
Air conditioner (central AC)	3.0 kWh/hour	\$0.33/hour
Electric clothes dryer (light load vs. heavy load)	2.5–4 kWh/load	\$0.28–\$0.44/load
Washing machine (hot wash, warm rinse)	6.3 kWh/load	\$0.69/load
Refrigerator (25 cu. ft., Energy Star rated)	60 kWh/month	\$6.60/month
50" LCD TV	0.016 kWh/hour	~\$0.01/hour
Hair dryer (10 minutes of use)	0.25 kWh/use	\$0.03/use
Night light (4 watts on 12 hours/day)	1.44 kWh/month	\$0.16/month

Price Colorado is classified as a “semi-arid” region (Climate, 2019) meaning that although it experiences all four seasons, the fluctuating between temperature, rain, and snow **do not** sway as much as other cities & states in the nation but you still want to be cognizant of which month will procure the highest cost for certain utilities. As you can see below, the hottest vs. coldest and driest vs. wettest months can be dramatic

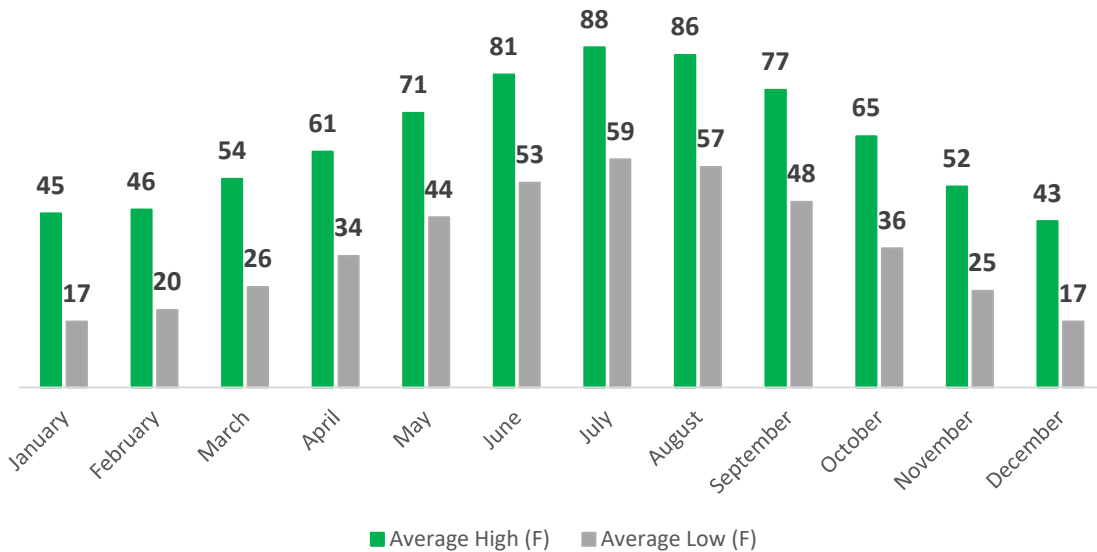
Price **Hottest Month: JULY** (High: 88 degrees F)

Price **Coldest Month: DECEMBER** (High: 43 degrees F)

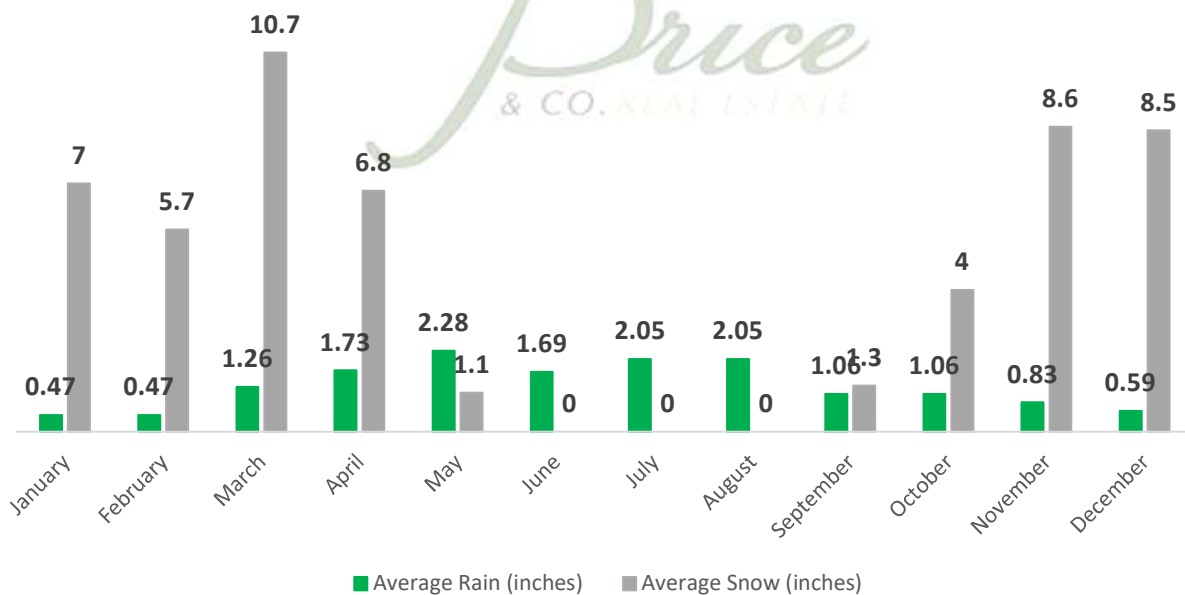
Price **Driest Month: MAY** (2.12 inches)

Price **Wettest Month: MARCH** (10.7 inches)

Average Monthly Temperatures in Denver, CO (Fahrenheit)



Average Monthly Snow & Rain in Denver, CO (Inches)



Price Setting your thermostats to 68 degrees in the winter months while you're awake and setting it lower while you're asleep can significantly reduce your electric bill. By turning

your thermostat back 10 to 15 degrees for 8 hours or longer can save you 5% to 15% a year on your heating bill (Utility, 2016)

Price Keep in mind that the colder the temperatures are, and the longer the duration of the cold temperatures, your heating system must work harder to maintain your comfort which, in turn, means more kilowatt used

Price If you are not used to living in Colorado, you may find that yourself spending a little extra on your utility due to a humidifier being built into your HVAC system. Due to the dry climate, many modern HVAC systems have this feature in order to add moisture to your homes air circulation

Price Also, don't forget about the **other utilities** which a household can't live without. Below shows the average **monthly** cost for water, internet, trash/recycle and cable/satellite television



Price & Co. Tips

Price Invest in **energy efficient lightbulbs** and **unplug electronics they're not in use**. Replacing old lightbulbs with energy efficient ones can save you **\$75 per year** while unplugging your appliances and electronics when not in use can save you over **\$100 per year**

Price Become a **"cord cutter"**. This is an ever-growing trend where families are reducing costs on cable television by purchasing streaming services such as **SlingTV & Playstation Vue** and the typical streaming portals such as Netflix & Hulu. Also, you can buy digital-antennas which provide you access to basic television stations for free! You can save on installation fees and avoid locking yourself into annual contracts

Property Taxes

Price **April** is when property taxes are due (April 30th to be exact). Keep in mind, your monthly mortgage payment includes principal, interest, homeowners insurance and **property taxes**, so you won't need to cut a check for these taxes each year BUT if you have financed your purchase through a private mortgage firm or paid for home in cash, these are annual taxes you may be liable to pay in a lump sum. The annual, average tax can differ between the Denver Metro counties so ask your broker to provide you with the historical rates for the county you reside in. Below are the average rates for each county in 2018 and a table detailing what the tax liability would be on a \$350,000 valued residence (Smart Asset, 2018):

Price **Denver County**

- .560%

Price **Jefferson County**

- .697%

Price **Adams County**

- .852%

Price **Arapahoe County**

- .704%

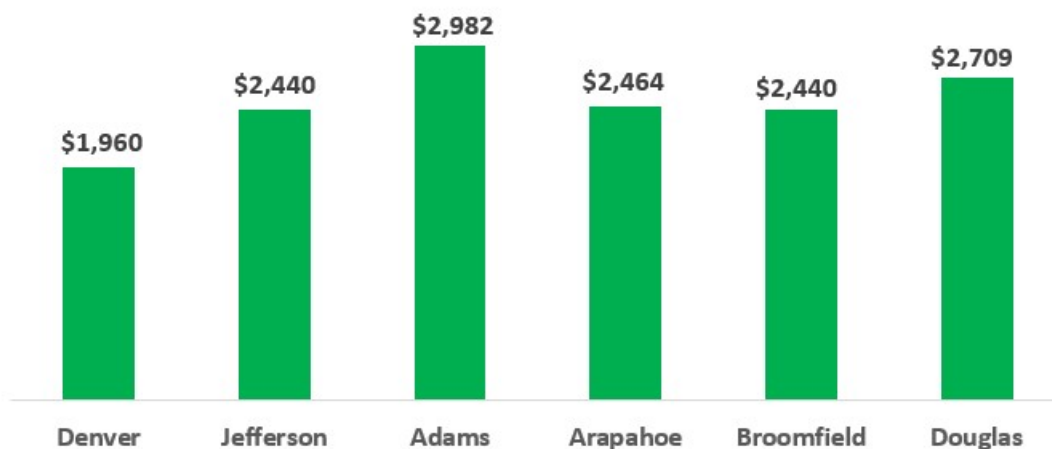
Price **Broomfield**

- .697%

Price **Douglas**

- .774%

2018 Property Taxes (Based on \$350k Home)



Price & Co. Tips



Remember that taxes fluctuate every year so the taxes are likely to keep going up with inflation, so you could even get a tax increase in the first year you own your home. Set aside a small chunk of your saving to make sure you have room left in the budget to pay even more taxes. Don't find yourself in hot water with the bank, and furthermore, the IRS (!) because you were not prepared for the annual fluctuation



Maintenance

Advice The annual maintenance costs for a home can be as much as 1.5 percent to 4 percent of the home's original price (Coldwell, 2019) so this is a large financial burden which you'll want to make sure you are saving for and will not be caught off guard. A few factors that will definitely play into the overall cost of maintaining your home:

- **AGE**

- The age of the property is probably the most influential factor. A new home built will need very little maintenance, while homes 15 to 20 years old will need slightly more and once your home begins getting into years 20 or 30, major components like replacing a roof, will need to be considered

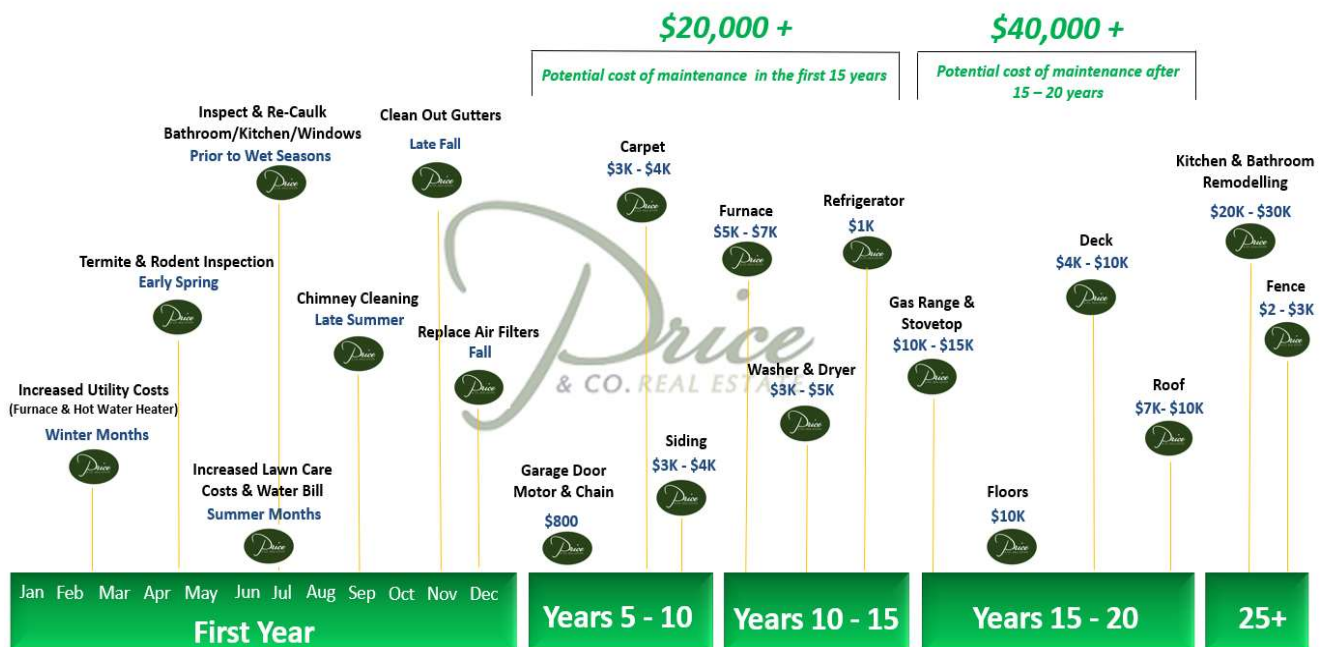
- **CONDITION**

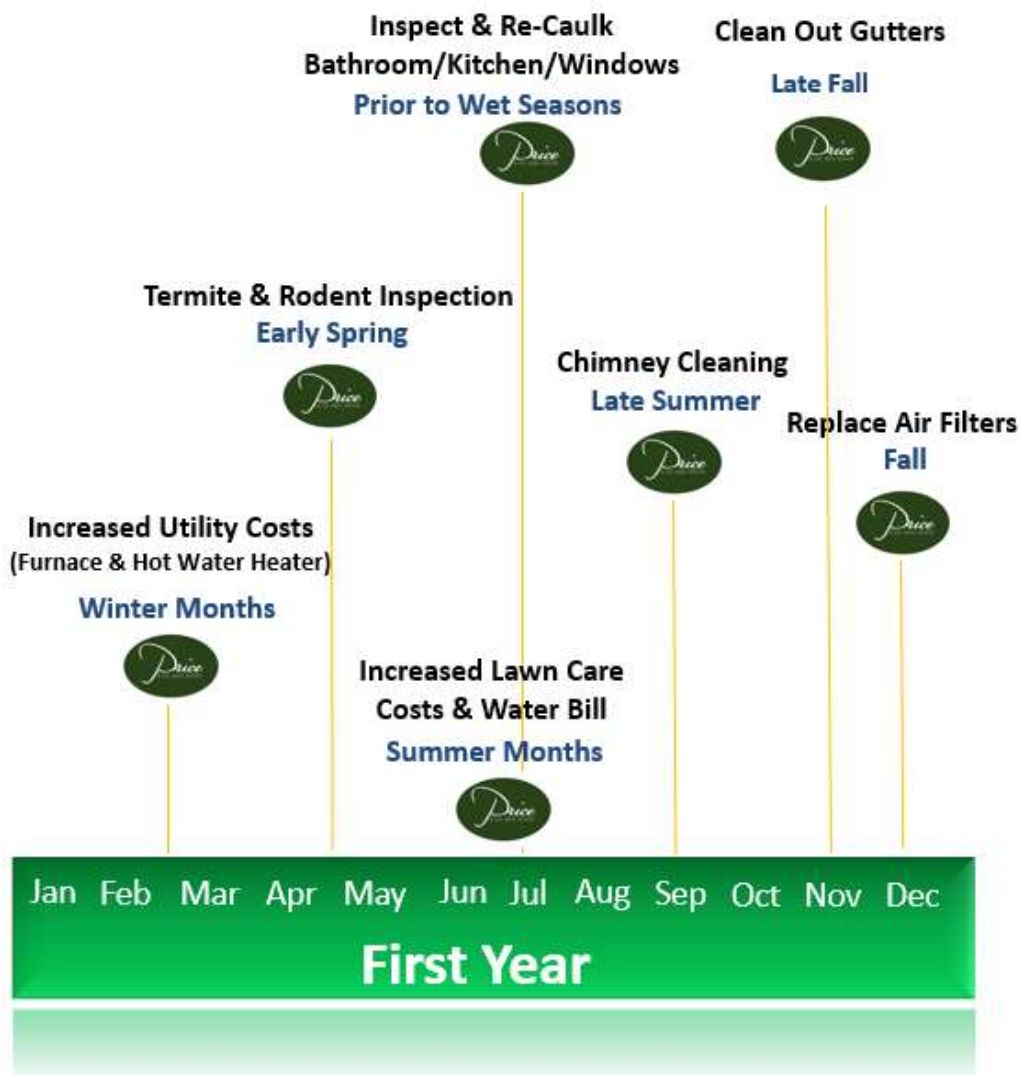
- Some homeowner take pristine care of their homes while living in them and often make the necessary repairs & replacements before putting their home on the market. But others can neglect or perform uncertified "DIY" repairs. If a seller is in a situation where they need to sell fast, they may not have the time to perform necessary repairs. This neglect can quickly fall onto the buyer if the buyer isn't cognizant of the condition of the property

- **SHORT vs. LONG TERM**

- **Short term** maintenances are annual expenses and things that typically come up within the first 5 years. These can cost a few hundred to a few thousand, depending on the repair. **Long term** maintenance costs are things that homeowners should be expecting *and planning* both **financially and time-wise**. These are events such as roof, siding, furnace, carpet, floors, and washer/dryer replacements

Advice After living in your home for two months or so, you should have a good sense on your average expenses for utilities and normal household expenses but **at this point, you'll want to start planning for and noting on large expenses** in which you think may need to be repaired or replaced in the upcoming months and years. You and your realtor should have done all you can to spot these items prior to closing but it's impossible to understand the full condition of each major fixture and appliance until after you move in. Signs of **wear-and-tear are key indicators** for items which you'll want to budget for replacing or repairing in the new future



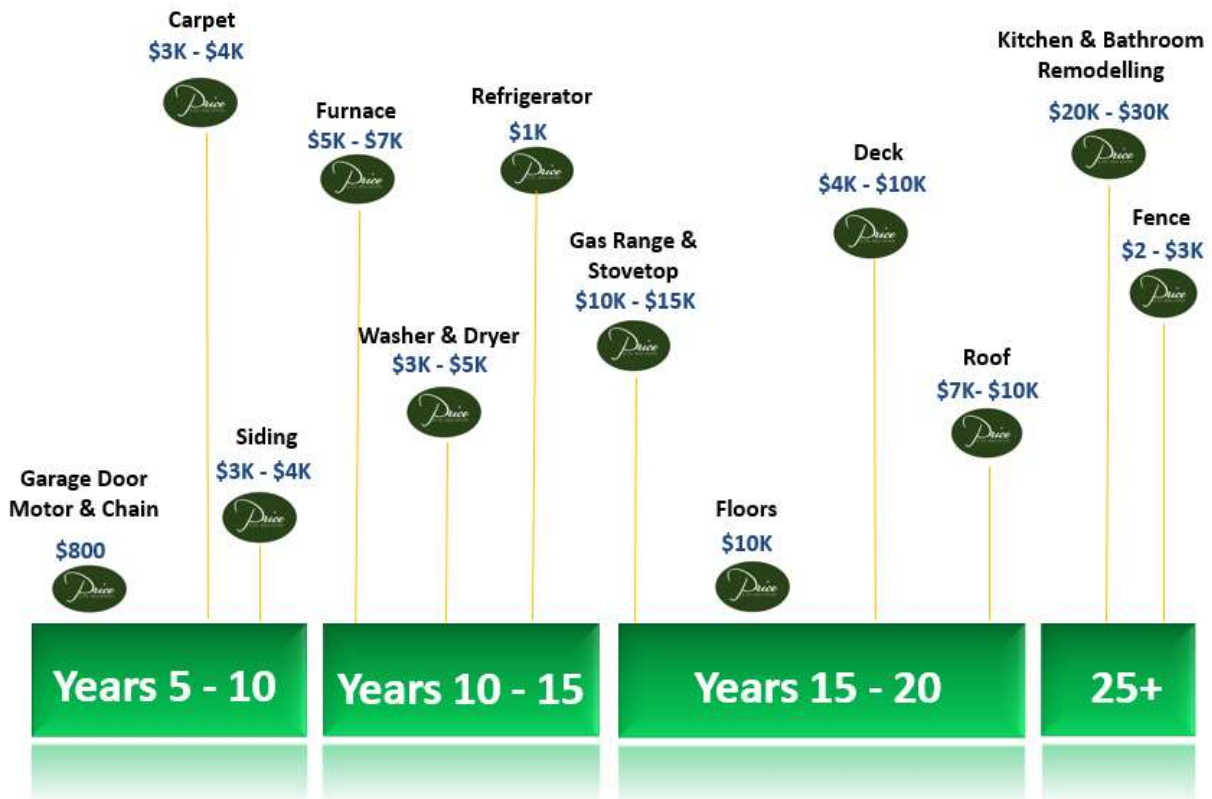


\$20,000 +

Potential cost of maintenance in the first 15 years

\$40,000 +

Potential cost of maintenance after 15 – 20 years



Price & Co. Tips

Price & Co. Tap into the equity you have built up over time to fund the remodeling and large repair projects that come up later on in ownership. At this point, you have built up substantial years of credibility & consistent monthly payments with your mortgage lender so they will loan you the funds for home upgrades at a favorable rate. This mortgage type is called a Home Equity Line Of Credit or commonly known as a "HELOC"

Replace or Repair	Average Price	Avg. Lifespan (Years)
Kitchen Remodeling	\$ 20,000	25
Bathroom Remodeling	\$ 10,000	25
New Fence	\$ 2,000	25
Roof	\$ 7,500	20
Floors	\$ 10,000	20
Deck	\$ 7,500	20
Gas Range & Sove tops	\$ 1,200	18
Washer & Dryer	\$ 2,000	15
Refridgerator	\$ 1,000	12
Dishwasher	\$ 700	12
Furnace Water Heater	\$ 8,000	10
Painting	\$ 2,000	10
Garage Door Motor & Chain	\$ 800	8
Siding	\$ 3,500	8

Price & Co. Tips

Price Banks traditionally defer the 1st mortgage payment by one calendar month which means **you won't make your first payment until 30 days after you move in.** Use this perk to your advantage by re-purposing into a savings account for "unexpected" maintenance

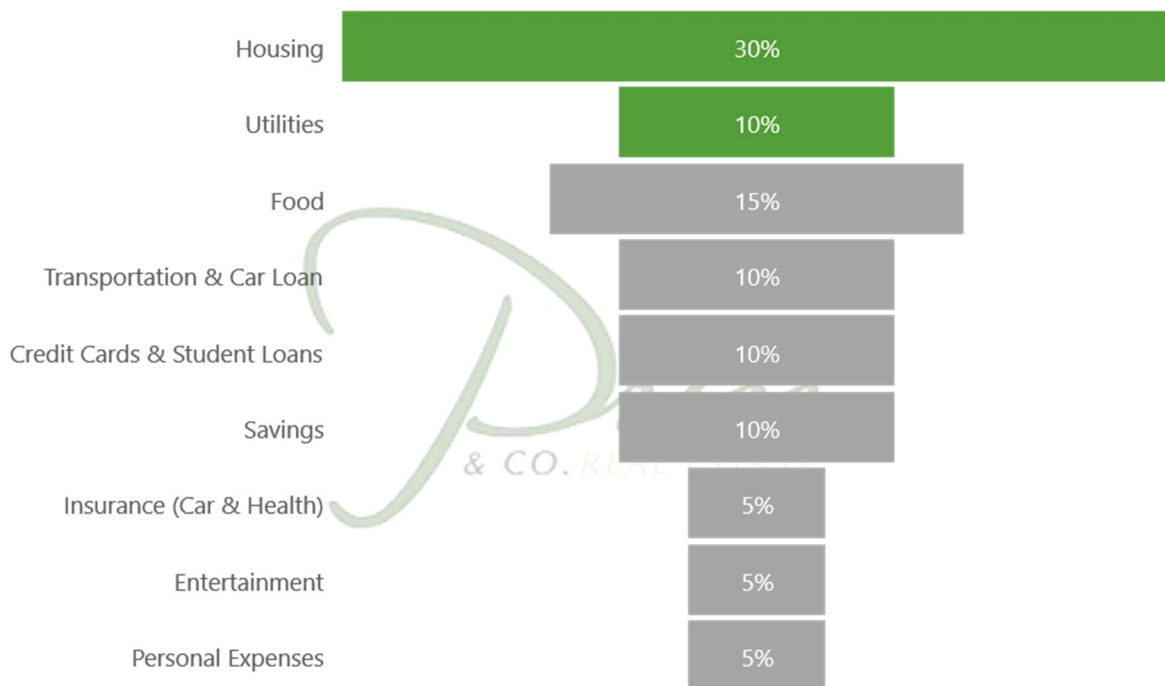
Price Don't be afraid of "DIY" projects. Especially if you plan on staying in the home for a while and have some time to finish what you start. Obviously, there are some things you want to leave to the licensed professionals but when it comes to things like cosmetic upgrades, you'd be surprised how much even the most novice human can accomplish. Websites such as Instructables, DIY Network, Make, and even YouTube can provide detailed step-by-step guides to tackling most household projects

Price If you find major maintenance issues have been neglected or are due to be repaired/replaced in the near future, use this as a leverage point to **negotiate a lower purchase price.**

Price Apply the "One Percent Rule". This general theory suggests that one percent of the purchase price of your home should be set aside each year for ongoing maintenance. For example, if your home cost \$350,000, you should budget \$3,500 per year for maintenance

Conclusion

Price Always keep your budget in mind. It is too easy to fall in love with the higher price (there is a reason why that house has a higher price tag!) so be **realistic** about your financial situation. Too often, we see clients stretch their budget and forget all about the other expenses in life. Remember, a normal household income should be budgeting around 40% for their housing, including maintenance and utility fees. Below is an average breakdown of how a **normal household budget** is typically distributed:



Price Do not rush into purchasing a home until you are ready! Although we love the motto “*Don’t wait to buy good real estate, buy good real estate and wait.*” by T. Harv Eker, we also don’t want any of our clients to make financial mistakes. Trust me, we encourage everyone to avoiding renting and making your landlord rich (Price, 2018) but we also know that there is a financial responsibility when it comes to being prepared to purchasing *and* owning a home. Life can come at your fast so here are some general rules:

- Have an 8-month emergency fund saved up
- Have a secure job

- If you have a heavy commission-based salary, how do the sales cycles of your industry impact your budgeting?
- Consider the short & long maintenance expenses
- If able, put 20% down in order to avoid PMI and have more money each month to cover future expenses

We hope this consulting report has been a useful guide and has shed new light on the process for First Time Home Buyers in Colorado. If you would like **any** additional guidance on the process or have any questions at all, **please do not hesitate to reach out to us!**

And remember, although the process can be stressful at times, **try to enjoy the journey** and be **thankful that you are in this position!** Our agents are here to help and will undoubtedly make the buying process **easier** for you. We put our clients ahead of **everything** and ultimately will help you and your family make the best decision.

If you'd like any additional advice pertaining to First Time Home Buyers, we encourage you to read our blogs on our website. Some useful blog we have published are as follows:

Price **You're Making Your Landlord Rich**

<http://pricecohomes.com/2018/12/youre-making-your-landlord-rich/>

Price **MYTH: "There's no way I can afford to buy a home!"**

<http://pricecohomes.com/2017/02/first-blog-post/>

Price **Home Buying Myths**

<http://pricecohomes.com/2018/10/home-buying-myths/>

Price **Why Now is the Time to Buy**

<http://pricecohomes.com/2018/06/why-now-is-the-time-to-buy/>

Price **Advice for New Real Estate Investors**

<http://pricecohomes.com/2017/12/advice-for-new-real-estate-investors/>

Thank you!

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