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balancing your housing needs and resources

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HOW TO USE THIS FOLDER

You will need a pencil and a quiet, comfortable place to sit and think. As you read, jot down your important thoughts. After you study and discuss the comments on the first pages with your family, you will be ready to tailor a housing shopping list on the forms provided. Then you can wisely evaluate your housing alternatives.

Do you think that your present home no longer fulfills your needs and desires? Are you considering building a new house from scratch, remodeling an existing dwelling, or simply buying or renting another home?

If you are considering any of these housing changes, take comfort in the fact that many families are facing the same decision that you are. Some people, however, change their housing casually and make costly mistakes. To avoid costly mistakes, you will want to make a wise decision. A home requires a large investment of your time and income, and it affects the way you and your family live.

If you approach your task not as a housing problem, but as an **OPPORTUNITY TO MAKE YOUR LIFE MORE SATISFYING**, you can expect to make the best decision. Consider the following things:

1. **FIRST DEFINE WHAT YOU AND YOUR FAMILY NEED AND WANT FROM A HOUSE** (Worksheet on page 4)

Don't expect to make a good decision until you know what direction to take. Perhaps these guidelines will help:

■ **NEEDS AND WANTS** are something that stimulate you to seek a goal you believe will be more satisfying. Your needs and wants may include such qualities as warmth, beauty, comfort, convenience, economy, privacy, safety, quietness, and other things strongly required or desired by you and your family.

■ **ACTIVITIES** are useful in determining needs and wants. Three basic groups of activities take place in a house. The following examples may help in your thoughts and observations.

PUBLIC ACTIVITIES – the things you usually do with others including entertaining, dining, listening to music, watching television, playing games, visiting, or casual reading.

PRIVATE (PERSONAL) ACTIVITIES – the things you usually do alone including sleeping, dressing, grooming, body elimination, bathing, serious reading or studying, thinking, and writing.

SERVICE ACTIVITIES – the things you do to maintain and operate your household including food preparation and preservation, cleaning clothes, sewing, writing letters, paying bills, and keeping records.

Because you and your family are very special, you will want to consider how your needs, wants, and activities differ from those of other people.

■ **PHYSICAL CHARACTERISTICS** of a house (rooms, size, color, material, equipment, storage, and furnishings) are different because people and their needs, wants, and activities are different. A good house (home) for your family should be planned considering your family's special characteristics. Thus, the three basic groups of your family's activities should relate directly to rooms or areas in the house. These areas are:

PUBLIC AREA – where you usually do things with others including the living room, entrance, dining area, and family room.

PRIVATE AREA – where you usually do things privately without interference including the bedroom, bathroom, and study.

SERVICE AREA – where activities to maintain and operate the household take place including the kitchen, laundry, sewing room, and office.

Each area probably includes special equipment, storage, lighting, and furnishings. Naturally, most people find it convenient to use a room for more than one activity. For example, the living room may be used for entertaining (public), serious reading (private), and keeping records (service) at different times. The most important factors to consider are which activities of your family must be separated and should these activities be separated by time or different areas (rooms).

2. EVERY FAMILY CHANGES. HOW WILL YOUR FAMILY'S NEEDS AND WANTS CHANGE IN THE NEXT FEW YEARS?

Consider:

- will your family become larger or smaller?
- will your interests and activities also change?
- will you have less time or energy to do everything you are doing today?

Think about how these changes will influence your housing.

- more or less sleeping space?
- larger or smaller lawn to maintain?
- basement needed?
- number of bathrooms?
- recreation room desired?

3. HOW MUCH CAN YOUR FAMILY COMFORTABLY INVEST IN A HOME? (Worksheets on page 6)

Only a foolhardy individual would commit more of his financial, property, and human resources to housing than he could comfortably live with for many years. Thus, you will want to consider these factors carefully:

■ *FINANCIAL RESOURCES* include the income taken home after deductions such as social security and income taxes. Of course, most of your income goes for expenses other than housing. Thus, several familiar rules of thumb have evolved:

- Your total monthly cost of housing (mortgage, taxes, utilities, maintenance, and insurance) should not exceed 25 to 30 percent of your monthly pay. For example, if your take-home pay is \$500, your monthly cost of housing should not be more than \$125 to \$150.
- Your total cost of buying a house (sales price) should not be more than 2 to 2½ times your gross annual income. For example, if your annual income is \$10,000, the cost of your house should not exceed \$20,000 to \$25,000.
- One percent of the purchase price of your house should not be substantially more than your net pay for 1 week's work. For example, if your pay for 1 week's work is \$200, the cost of a house should not exceed \$20,000.

Because these are merely rules of thumb, they should be used with care. One family might be able to invest more or less than another family. The type of life that you and your family live requires personal consideration. The worksheet on page 6 allows you to make that consideration. If your income will not provide the type of housing you desire, you may:

- reduce other spending (food, entertainment, transportation, gifts, etc.),

- increase your take-home income (may be difficult), OR
- find housing with lower monthly payments.

In other words, decide how you can PURCHASE THE TYPE OF LIFE YOU AND YOUR FAMILY WANT.

■ *PROPERTY RESOURCES* are the assets you have in durable and real property, savings accounts, bonds, and other investments. Frequently when people are buying, they convert part of these investments into cash and apply this amount toward such housing expenses as closing costs, moving costs, repairs, down payments, and furnishings. Examine your investments to see if it is desirable to apply these toward housing. Remember, if you convert property resources into cash for housing, you may have to:

- deduct capital gains taxes if payment is required.
- lower your take-home pay if you previously received income from the property resources you converted to cash.

■ *HUMAN RESOURCES* for housing involve time, knowledge, energy, and skills that are necessary to obtain, operate, maintain, and improve a house. Perhaps you have special skills or abilities that allow you to make repairs or improvements without hiring a tradesman. However, less than 20 percent of the total cost of a new house is from labor costs. Because construction involves a great diversity of craftsmen, few people save more than 5 percent of their housing costs by doing some of the work themselves. If you spend time and labor on a house at the expense of your job, you may have to alter your take-home pay.

4. JUST AS FAMILY NEEDS CHANGE, RESOURCES FOR HOUSING CHANGE.

- Will your family income (including spouse's income) remain steady, increase, or decrease?
- Will you want to spend more or less nonhousing dollars for such things as clothing, education, insurance, recreation, transportation, or savings?
- Will your housing costs change for such things as maintenance, property taxes, utilities, furnishings, or insurance?
- Is it possible that your property resources will decrease or increase in value?
- Will health, age, or other conditions influence your ability to operate, maintain, or improve a home?

**FAMILY NEEDS FROM HOUSING:
A WORKSHEET FOR YOUR THOUGHTS**

List your family's needs, wants, and activities by order of importance because they influence your housing alternatives. You probably won't get everything you want.

NEEDS AND WANTS

ACTIVITIES

(most important)

(less important, but
desirable)

PHYSICAL CHARACTERISTICS

From your list of family needs, wants, and activities, you will be able to identify the number and type of rooms, equipment, storage, lighting, and furnishings you wish to have in a house. Again, list by order of importance.

PUBLIC	PRIVATE	SERVICE

EVALUATION FOR FINANCIAL RESOURCES

You will want to use this worksheet to determine how much money income you can comfortably invest in housing. Above all, be honest with yourself. Do not commit more income than you can definitely count as continuing. Thus, exclude unreliable income from overtime or part-time employment.

MONTHLY INCOME

Gross base pay (all wages and salaries other than overtime)	\$ _____	
Net profit (from business)	+ \$ _____	
Interest and dividends	+ \$ _____	
Other income		
Total gross income (add)	= \$ _____	
Deductions for:		
Income tax (federal, state, and local)	- \$ _____	
Social security and retirement	- \$ _____	
Insurance (life, health, other)	- \$ _____	
Other (charities, etc.)	- \$ _____	
Total deductions (subtract)	- \$ _____	
<i>Total take-home pay</i> (subtract deductions from income)		= \$ _____

LONG TERM MONTHLY OBLIGATIONS (in excess of 12 months)

Installment payments on car, furniture, other (subtract)	- \$ _____	
		= \$ _____

CASH FOR FAMILY SUPPORT AND HOUSING

Proposed mortgage payment or rent	- \$ _____	
Allowance for property taxes	- \$ _____	
Allowance for utilities (heat, water, phone, electricity)	- \$ _____	
Allowance for maintenance (2 percent + of mortgage payment)	- \$ _____	
Allowance for insurance	- \$ _____	

ADJUSTED MONTHLY FAMILY INCOME (subtract above housing items) = \$ _____

- should be \$250/month or more for husband and wife
- should be \$40/month or more for each child or dependent
- may be greater if the following monthly nonhousing expenses (other than those listed above), exceed the minimum \$250 and \$40/month guidelines for your family:

Food, beverages (home and work)	\$ _____	
Entertainment and recreation	+ \$ _____	
Clothing and grooming	+ \$ _____	
Transportation and automobile expenses	+ \$ _____	
Medical care	+ \$ _____	
Education	+ \$ _____	
Gifts	+ \$ _____	
Insurance	+ \$ _____	
Savings	+ \$ _____	
Other	+ \$ _____	
<i>Total monthly nonhousing expenses</i> (add)		= \$ _____

- should be less than monthly adjusted family income.
- if greater than the \$250 and \$40/month guidelines, you may have to lower your allowance for mortgage payment or rent, property taxes, utilities, maintenance, and insurance – in other words, lower your housing costs.
- Note that often transportation, automobile expenses, and insurance expenses increase when a family makes a housing change. Have you considered this?

EVALUATION OF PROPERTY RESOURCES

Because people frequently convert some of their property resources into dollars for housing, this worksheet is provided. You may wish to apply part of your property resources to closing costs, moving expenses, down payment, repairs, or furnishings. Remember, you may have to pay capital gains taxes and, if you received income from the converted property resources, adjust your income accordingly.

ITEM	ON HAND	CONVERTED FOR HOUSING
Cash (checking account)	\$ _____	\$ _____
Cash (savings account)	+ \$ _____	+ \$ _____
Government bonds	+ \$ _____	+ \$ _____
Time certificates	+ \$ _____	+ \$ _____
Stocks, bonds, mutual funds	+ \$ _____	+ \$ _____
Sales of present house and/or property	+ \$ _____	+ \$ _____
Other (specify) _____	+ \$ _____	+ \$ _____
<i>Total cash value of property resources (add)</i>	= \$ _____	
<i>Total cash from liquidation for housing (add)</i>		= \$ _____

EVALUATION OF HUMAN RESOURCES

Because some individuals attempt to limit their initial housing expenses by investing their human skills, you may wish to consider your own situation. Warning: Do not overestimate your time, energy, skills, and abilities to complete do-it-yourself jobs. Be fair with yourself.

<i>Moving</i>	YES	NO
<i>Finishing</i> – install paneling	YES	NO
– paint walls (interior and exterior)	YES	NO
– install ceramic or laminated tile	YES	NO
– finish doors, windows, and woodwork	YES	NO
– floors (install carpeting or hard surface flooring)	YES	NO
<i>Yard</i> – lay sod or plant grass	YES	NO
– plant trees and shrubs	YES	NO
– rough grading	YES	NO
– build retaining walls or fences	YES	NO
– lay concrete walks, patios, or driveways	YES	NO
<i>Rough carpentry</i> (previous skill recommended)	YES	NO
<i>Plumbing or wiring</i> (previous skill recommended and may be required – check with building inspector)	YES	NO

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