



COST OF LIVING:

IT'S NOT JUST ABOUT HOUSING

motus



It's a common misunderstanding that, when an individual is moving to a higher cost location, the cost of housing is the only difference in the cost of living.

The cost of housing may be higher by 50%, 75%, double or even triple in the new location. But this does not mean that the transferee will need two or three times the amount of money to live there. There are other key components that make up the total cost to live in a location.

Your monthly car payment and FICA/social security taxes are examples of cost elements that will stay exactly the same after one relocates. Other items, like the cost of groceries, car insurance and utilities will vary, but not to the same extent as housing. However, these other combined expenditures represent a much higher percentage of a family's total expenses than their mortgage payment. The overall cost-of-living differential between locations can only be determined after incorporating all expenditures that a household incurs on a daily, weekly, monthly and annual basis.





TAXES

In the U.S., state taxes may appear to be fairly obvious when looking at the cost of living. This is especially true if someone is moving from a location with no state income tax. However, state tax rates can be somewhat misleading. While some states have a flat tax rate, others use a progressive tax with only individuals at the highest incomes paying the top rate. Additionally, allowable deductions vary significantly from state to state. Homeowners in the U.S. may not realize that their federal taxes will go down when moving to an area with higher housing costs because they can deduct their mortgage interest (for loans up to \$750K since tax reform) and their property taxes (now capped at \$10,000 when combined with local and state income tax). The net result? Their overall federal tax obligation can be thousands of dollars less on an annual basis.



MORTGAGE INTEREST
DEDUCTION ON LOANS UP TO
\$750,000



PROPERTY/STATE/LOCAL TAX
DEDUCTION CAPPED AT
\$10,000



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TRANSPORTATION

While the cost of a gallon of gas may be obvious when arriving in a new location, other transportation costs may not be quite as noticeable. For example, the cost of automobile insurance is significantly higher in downtown Detroit, Michigan, than it is in Charlotte, North Carolina. How much a particular state charges for annual vehicle registration or inspections can vary as well. When totaled, annual costs for operating and maintaining two vehicles can be in excess of 15% of total expenditures for a family. However, the difference between locations, even when considering potentially higher fuel, insurance and registration costs, will never be close to the same percentage increase as the cost to acquire housing in a significantly higher cost housing market.

GOODS AND SERVICES

How much does a typical family spend on groceries? What about personal care items? Recreation? Entertainment? While families at various income levels have different expenditure patterns, (e.g., lower incomes spend more of their budget on groceries and less on entertainment), the difference in costs for these items when moving to a new location is not usually significant. Geographic variances for many goods and services items are being reduced due to the increase in online shopping. In most locations, the typical household spends more, on an annual basis, for the aggregate of their goods and services than they do on their monthly rent or mortgage payment.



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OTHER HOUSING EXPENSES

In addition to rent or mortgage payments, there are additional housing costs that must be taken into consideration when calculating the cost of living. Monthly utility bills can be quite sizeable in some markets, but it goes beyond the rate per kilowatt hour. In locations such as San Francisco, the cost per kilowatt hour is much higher than in Houston. However, this does not mean that the average utility bill in San Francisco is proportionally higher than Houston. Given the climate differences, residents in San Francisco won't use air conditioning nearly as much as those in Houston, thereby decreasing their kilowatt hours.

Similarly, homeowners insurance can vary, especially for coastal areas. It would not be uncommon to find a home in the Washington D.C. area that cost nearly twice as much as a similar home in Miami, Florida. However, the homeowners insurance in Washington may be less than half of that in Florida.

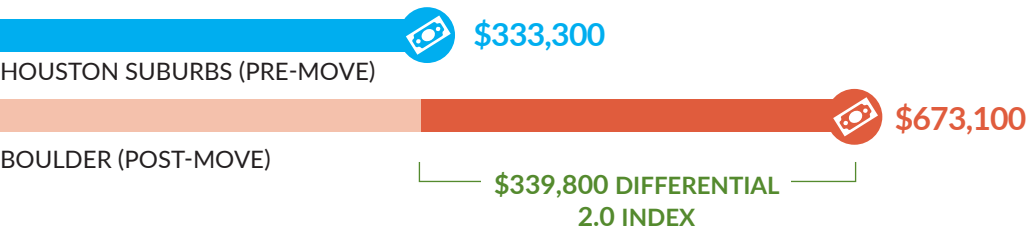


EXAMPLE

Let's take a look at an example for a transferee with a \$100,000 salary. It's a family of 4, moving from the Houston, Texas suburbs to Boulder, Colorado. While the price of a 2,300 square foot home is double, in Boulder we must look at all of the factors that make up the cost of living—not just housing:



HOME PURCHASE PRICE



COST OF LIVING CALCULATION



The family will have a state income tax in Colorado that they previously didn't have in Texas, but they will also be paying less in federal taxes as they will be deducting the increased mortgage interest, property taxes, and state taxes:

	PRE-MOVE	POST-MOVE	DIFFERENTIAL	INDEX
INCOME TAXES	\$12,518	\$14,782	\$2,264	→ 118.1
FEDERAL TAX	\$4,868	\$3,816	-\$1,052	
FICA TAX	\$7,650	\$7,650	\$0	
STATE TAX	\$0	\$3,316	\$3,316	



Transportation Costs, summarized below, are slightly lower in Boulder:

	PRE-MOVE	POST-MOVE	DIFFERENTIAL	INDEX
TRANSPORTATION	\$13,600	\$13,077	-\$523	→ 96.2



Mortgage payments increase significantly due to the more expensive home and insurance being slightly higher. Meanwhile, property taxes are less than half and utilities also decrease. As illustrated below, even though the cost of the home purchase price was double in Boulder, the overall annual housing costs only increased by 39% (not 200%):

	PRE-MOVE	POST-MOVE	DIFFERENTIAL	INDEX
HOUSING	\$31,115	\$43,365	\$12,250	→ 139.4
MORTGAGE (P&I)	\$16,210	\$33,708	\$17,498	
HOMEOWNER INSURANCE	\$1,569	\$1,679	\$110	
REAL ESTATE TAXES	\$8,468	\$3,716	-\$4,752	
UTILITIES	\$3,596	\$3,125	-\$471	
MAINTENANCE	\$1,272	\$1,137	-\$135	



The goods and services market basket, comprised of 95 items and weighted based on salary and family size, represents over 25% of the family's total annual expenditures and is fairly similar in cost between these locations. Miscellaneous represents the remaining salary that is left after expenses for taxes, housing, transportation and goods and services. These funds are typically used for vacations, investments, retirement savings, etc. They do not vary by geography; they remain constant between locations.

	PRE-MOVE	POST-MOVE	DIFFERENTIAL	INDEX
OTHER EXPENSES	\$42,767	\$43,639	\$872	→ 102
GOODS & SERVICES	\$28,145	\$28,922	\$777	
SALES TAXES	\$1,525	\$1,620	\$95	
MISCELLANEOUS	\$13,097	\$13,097	\$0	



	PRE-MOVE	POST-MOVE	DIFFERENTIAL	
TOTAL	\$100,000	\$114,863	\$14,863	→ 14.9%

COST-OF-LIVING DIFFERENTIAL

In summary, while the cost of housing is over double between these locations, when including the cost of all other expenditures for this family profile, the cost-of-living differential, while still sizeable, is only 14.9%. It isn't all about housing!



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