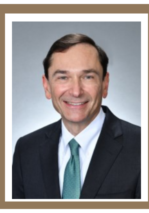
Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY
SERVING CLIENTS FOR OVER 35 YEARS

Summer 2024

THE GOODMAN REPORT

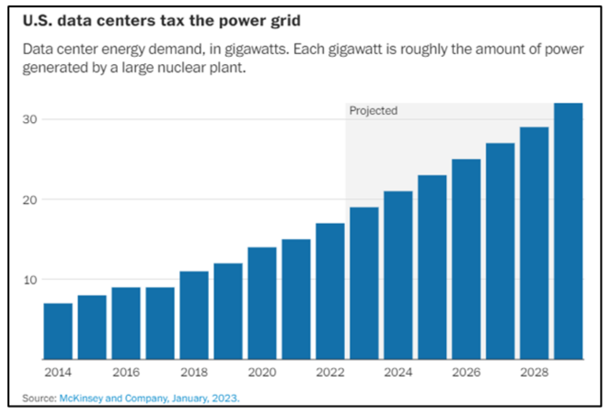


Data Centers & The Electric Grid

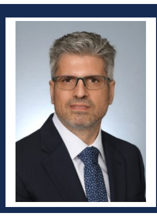
By: Chris A. Matlock, CPA, CFA
Chief Investment Officer

The emergence of Artificial Intelligence (AI) applications and development has caused an explosion of spending on data centers specifically built to run AI servers. Those AI servers are built on graphics processing units (GPU), which are power hogs relative to more traditional server central processing units (CPU). For example, according to the International Energy Agency (IEA), a simple ChatGPT request uses nearly 10 times more electricity than a regular Google search. Accordingly, electricity usage by data centers has increased dramatically. It is estimated that data centers currently consume up to 3% of electricity generated globally–and is expected to consume nearly 10% of our nation's electricity before the end of this decade.

According to McKinsey and Company, data center energy demand in the U.S. will rise from 17 gigawatts (GW) in 2022 to 35 gigawatts by 2030, as seen in the nearby chart. For a point of reference, each gigawatt is roughly the amount of power generated by a large nuclear plant. This increased demand is rapidly outpacing the capacity of utilities to meet their needs.



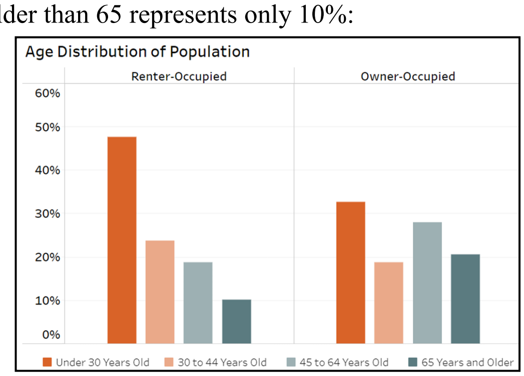
Continued on page 2



The Empty Nesters' Dilemma: To Own or Lease a House?

By: Antionio Castillo, CFP®
Associate Advisor

Ownership and renting appeal to different segments of the population. While both groups span diverse ages, incomes, and backgrounds, clear demographic differences emerge between typical homeowners and renters. According to the US Census Bureau, the national ownership rate in the US was 66% in Q1 2023. The National Multifamily Housing Council data shows that 48% of the renters are under 30 years old, while the age group older than 65 represents only 10%:



Source: NMHC tabulations of 2022 American Community Survey microdata, US Census Bureau. Updated 11/2023. Note: Does not include non-housing units.

Empty nesters and retirees often face a significant decision: should they continue to own their home, or should they consider leasing? This decision is not a simple one, as it involves considering various factors such as financial stability, lifestyle preferences, and future plans.

The idea of renting a house or apartment can be challenging for many longtime homeowners. Owning real estate is "hardwired" into the American psyche, but in some instances, ownership is more expensive than people imagine. Also, it may be more important for many retirees to secure income from investments than to sink money into a new house.

Financial Considerations

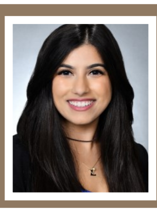
One of the primary factors influencing this decision is the financial aspect. Owning a home can be a significant investment, but it also comes with numerous ongoing costs such

Continued on page 3

Continued from page 1 (Data Centers & The Electric Grid)

Based on data supplied by the nation's utilities to the Federal Energy Regulatory Commission (FERC), grid planners have doubled their estimates of U.S. electric demand growth over the next five years from a 2.6% estimated growth rate as recently as 2022 to a more current estimated growth rate of 4.7%. According to FERC, our electric grid "is not prepared for such significant load growth" and puts some regions of the country at risk for reliability. A case in point regarding reliability is in the PJM electric interconnect service territory that encompasses an area on the East coast from New Jersey to North Carolina and includes Ohio and Kentucky. Included in that region is the state of Virginia, in which can be found the largest concentration of data centers in the world, nearly 40% larger than #2 Beijing and four times larger than the next closest U.S. market in Dallas. This has Dominion Energy, the state's electricity provider, concerned about meeting future demand, which it expects to grow at a rate of 7.4% per year over the next decade over its entire territory.

All of this begs the question of where the required future electric generation capacity will come from. Certainly, federal and state fiscal and tax incentives are spurring considerable spending on wind and solar renewable energy. Unfortunately, spiraling costs to build out that capacity due to inflation along with higher interest rates have caused spending for renewable energy to slow down, and often requires significantly higher contracted electricity rates to incentivize their construction. Furthermore, renewable energy, which requires the sun to shine and the wind to blow is much less reliable than so-called base load electric generation capacity, based on the use of coal, natural gas and nuclear fuels. Since we are no longer building coal or nuclear plants in the U.S., this leaves only natural gas as a reliable source of much needed base load generation. This is one of the reasons we are bullish on the long-term U.S. natural gas production outlook, supporting our Antero Resources Corp. (NYSE: AR) position. Additionally, electricity rates are almost certain to rise in the coming years to support the buildout of all the required new generation capacity, from whatever the source. This will put upward pressure on inflation rates. Meanwhile, be prepared in the coming years for increasing brown-out or black-out episodes during times of peak electricity demand in the event new generation capacity is unable to keep pace with increasing power demand resulting from the addition of all the expected newly built data centers.



Complimentary TXCPA Webcast

By: Mashal Lakhani, MBA
Director of Marketing & Communications

Join our Associate Advisor, Hunter Coday, CFP®, on Monday, July 8, 2024 for a complimentary TXCPA webcast on Equity Compensation: Taxation and Planning! Earn one hour of CPE and learn more about various types of equity compensation plans and their features, including stock options, grants, restricted stock, and stock purchase plans.

Scan here to register for the complimentary CPE webcast:

SCAN ME

Continued from page 1 (The Empty Nesters' Dilemma...)

as mortgage payments, property taxes, insurance, and maintenance. On the other hand, leasing a home can provide more financial flexibility, as it typically involves lower upfront costs and the possibility to move without the hassle of selling a property and incurring transaction costs. However, leasing also means that you are not building equity in a property, which could be a disadvantage in the long term.

Deciding whether to buy or rent when downsizing depends on many economic factors. You should estimate your cash flow needs and assess the relative costs of home prices and yearly rents for comparable properties in the community you want to live in. You also need to make certain assumptions. For renting, factors include investment growth, annual rent increases, and renters insurance. For owning, consider the costs of home maintenance, property taxes, and homeowners insurance.

Rents have been going up consistently over the long run. If you choose to rent, there is a risk your rental payment will go up each time you renew your lease. Having a higher rental expense may not be something you want to deal with every year.

One important factor in any calculation is the "opportunity cost" of tying up money in a house rather than investing it. Depending on the geographical market, you could earn more on your investment portfolio than you would in the house appreciation. While many people think paying rent is a waste, many others feel that the expenses associated with homeownership are a lost cost.

Still, many downsizing retirees opt to buy. But even here, you need to make a choice. Debt-averse retirees who decide to go the purchasing route tend to buy their new house with cash. But you may be better off taking a mortgage for at least part of the purchase, and investing the balance if you believe that the return may exceed the mortgage rate.

Lifestyle Preferences

Nonfinancial factors can play into a decision for older retirees. People should think of lifestyle needs and amenities they can retain by renting.

Your decision will depend a lot on emotional issues as well. Do you love the idea of owning your own place and fixing it up the way you want? Or, will it be a big relief after years of ownership not to worry about the lawn or a broken water heater?

Lifestyle preferences also play a crucial role in this decision. Some empty nesters may prefer the stability and familiarity of owning their home, especially if it is the house where they raised their children. Others might see this as an opportunity for a change, opting for the flexibility of leasing, which allows them to explore different neighborhoods, cities, or even countries.

Future Plans

Future plans are another important consideration. If you plan to travel extensively or live part of the year in a different location, leasing might be a more practical option. Conversely, if you plan to stay put and want a place that you can modify to your liking or pass on to your children, owning might be the better choice. But while you may intend to stay in your home for a long time, downsizing seniors need to be realistic about their aging-related needs. You may need to move into assisted living earlier than you expected, for instance.

Conclusion

Owning a house is not always better than renting, and renting is not always as simple as it seems.

The decision between owning and leasing a home as an empty nester depends on individual circumstances and preferences. It's a significant decision that requires careful consideration of various factors. Consulting with a financial advisor or real estate professional can provide valuable insights and help guide this important decision. Remember, there's no one-size-fits-all answer, and what matters most is choosing the option that best suits your needs and lifestyle.

Renting		Owning	
Pros	Cons	Pros	Cons
-Flexibility to move	-Potential rent increases	-Sense of stability and control	-Responsible for all ongoing costs
-Predictable monthly cost	-Inability to customize dwelling	-Helps build equity	-Significant transaction costs to buy and sell
-No maintenance/repairs costs	-No equity	-Tax benefits	-Investment return not guaranteed
-May free up money for other things		- Possible asset appreciation	-Not a very liquid asset

Goodman FINANCIAL
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY
SERVING CLIENTS FOR OVER 35 YEARS

5177 Richmond Avenue, Suite 700
Houston, Texas 77056

Phone: 713-599-1777
Fax: 713-599-1811
Toll Free: 877-599-1778
Email: info@goodmanfinancial.com
Website: www.goodmanfinancial.com

The Goodman Report

Inside This Issue:

Check out our website
www.GoodmanFinancial.com
for past newsletter articles and more content!

Giving Back: The Goodman and Viator Scholarship Program

Steven Goodman and Michael Viator, both accounting graduates of the University of Houston C.T. Bauer College of Business and former presidents of the Houston CPA Society, are excited to introduce The Goodman and Viator Scholarship Program. This program will pledge $200,000 to Bauer students majoring in finance or accounting, funding scholarships based on financial need and academic excellence.

Houston CPA Society transfer of the President's gavel - 1996

Scan to read the full story:

Bauer Gala - 2024