

## BUYING A NEW HOME IS A SOLID INVESTMENT



By Matt Belcher, 2007 HBA President

Buying a new home is one of the most important decisions you will ever make – and potentially one of the smartest. The home you purchase is not just a great place to live, it can be an outstanding investment.

### A Solid Investment

Potential for consistent, reliable appreciation is a very important consideration for any investment, and on this point, a new home is a winner.

Unlike riskier investments, which can become worthless virtually overnight, homes generally increase steadily in value. The return can be substantial over time. For example, a new house purchased for \$48,800 (the median for new homes) in 1977 was worth \$150,707 two decades later in 1997.

Compared to other investments, such as stocks, a home is also a relatively stable investment. It probably will not earn the spectacular returns sometimes generated by other financial vehicles, but is also unlikely to show the dramatic declines that are often associated with other investments. Homes tend to increase in value at a steady, relatively slow pace while alternatives can be extremely volatile.

Between 1969 and 1996, average stock values increased by as much as 35 percent in one year and dropped by as much as 24 percent. The average annual increase in the New York Stock Exchange Price Index during the period from 1969 to 1997 was 6.9 percent. Average stock values dropped in eight of the 28 years.

During the same 28 years, home values also experienced some ups and downs in individual housing markets. However, housing price appreciation on a national basis was stable and reliable, averaging 6.5 percent annually. The greatest annual increase in prices of existing homes was 14 percent; the smallest was 2 percent.

### Leveraging

Another benefit to homeownership is leveraging. A buyer can purchase a home with a cash downpayment that is only a small fraction -- as little as five percent or less -- of the total

purchase price. However, the return is based on the total value of the property. This is called leveraging an investment, and it makes the rate of return on a home much greater than on an equivalent investment where the buyer must put up the entire purchase price.

For instance, if a buyer makes a downpayment of \$10,000 on a \$100,000 home and the home's value increases to \$105,000 during the first year of ownership, then the home owner's equity (the value of the home minus any mortgage debt) has increased from \$10,000 to \$15,000. That's a 50 percent increase in equity in just one year.

### Building Personal Wealth

For most Americans, homeownership is a fundamental first step toward accumulating personal wealth and it is the primary source of a household's net worth. In 1993, home equity accounted for 44 percent of the nation's total net worth. That figure far exceeded other investments, including retirement accounts, stock and mutual fund shares, savings bonds, rental property and other financial accounts.

### Fulfilling the American Dream

Despite its financial benefits, a home cannot be completely valued in monetary terms. That's because it is so much more than just an investment. Not only is homeownership a stepping stone to a future of financial security, it provides a permanent place to call home and enormous personal satisfaction. It strengthens the nation's families and its communities. It is truly a cornerstone of the American way of life and the foundation of the American Dream.