

HOME VALUE REALITY

JUNE 2008

My home means a lot to me. It provides shelter for my family, a place to enjoy life and create priceless memories. However, one cannot **mark to market** memories. Nor can one fund a retirement on memories, therefore my home, despite all its attributes is not a retirement vehicle in my financial plan, it is a bill. It is my belief that if Americans were to make two assumptions when crafting their financial future, they will live very well. The first is to assume that social security doesn't exist. The second is to treat your home as if it was the electric bill not a retirement plan, bank, or credit card.

The last housing boom spawned countless stories of untold riches and soon-to-be Donald Trumps. I saw this movie before with the dotcom speculators from the 1990's. Unfortunately, for most of those want - to-be Donald Trumps, much like stocks, real estate values, despite what most agents have been preaching do not always go up. Even for a boomtown like Phoenix, AZ has only seen median rates of appreciation climb only 4.6 percent a year since 1981. According to the Fidelity Research Institute in a study published this past year, the real return on a dollar invested in real estate in 1963 barely beat the return on a low-risk treasury bill.

When the housing market slumps, which it tends to do every 10 to 15 years, the concept of homeownership becomes synonymous with renting from a bank. For example: Without appreciation, the purchase of a \$400,000 home, rather than renting the property for \$2,000 a month has the potential of becoming a money losing proposition. With the assumption that home prices stop receding in the near term, they would need to appreciate at 4% every year for a decade, (even if rents climbed well above the rate of inflation) before a family would save more than renting.

First, a 20% down payment (\$80,000) could be invested in a conservative mutual fund. Second, one must take in to consideration all of the other expenses that go along with home ownership such as taxes, insurance and maintenance. Neither of which build any equity. Granted, the tax breaks help; however with the average homeowner staying in a home for only six years the benefit is not that great especially with a 30 year fixed rate.

According to the Fidelity Research Institute, if renters were to save even \$300 a month in overall savings and that money were to be invested at an annual rate of 4%, it could add up to \$114,000 in 20 years. If you started out with the \$80,000 down payment it would be \$288,000.

The bottom line is to always think of your home as a bill; a necessity that can provide a lifetime of great memories. Do not treat your home like a credit card, a 401k, or a grand investment despite what any banker or real estate agent tells you.