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"Your Home as an Investment"

A majority of Americans report that their home is the best investment they've ever made. That's easy to understand when mom and dad purchased their home in 1982 for $100,000 and sold it last year for a cool $500,000. With only $15,000 down, that profit is staggering. Or is it?

- **Home Appreciation:** In the example above, mom and dad's home appreciated at 4.57% per year, which is above average. Since 1991, home values in Nashville grew at 4.55% annually; in Minneapolis, 3.9%; and San Francisco, 5.3% (Federal Housing Finance Agency, FHFA). Nationally, FHFA tells us that the average has been 3.6% annually since 1991. Inflation averaged 2.27% during the same period.
- **Robert Shiller Says:** This Nobel winning economist (who correctly predicted the housing bubble in 2007) tells us that, over the last 100 years, home prices nationally have grown about 1% above inflation, and every housing market experiences periods of decline and stagnation.
- **Portfolio Investment Expenses:** When you invest with an advisor, you know (or ought to) the cost: for example, 0.8% for the investment vehicle expenses, plus maybe 1.25% for the advisor equals 2.05% (an estimate for illustrative purposes; your expenses could be higher or lower). And when we tell clients how their portfolio did, it is always "net" of these expenses. So, if we tell you your portfolio was up 7.5% last year, that's *after* expenses/fees.
- **"Hidden" Home Expenses:** But, when you read about housing markets growing at 5% or 10%, that's a *gross* number for the value of the house. That doesn't include property taxes (0.97% in Nashville; 1.34% Minneapolis; 1.17% San Francisco). How about homeowners insurance? Annual home maintenance (landscaping, utilities, HOA fees, etc.) can easily be more than 1% of the home value, according to most real estate experts. And don't forget the interest on your mortgage. These annual "carrying costs" can easily be 5% to 6.5% of your home value.
- **And Taking a Big Bite from True Home Equity:** Home improvements. None of the most popular renovations give you your money back in resale value, according to Remodeling magazine. Nationally, you get 54 cents back on the dollar for a new bathroom; 59 cents back on a major kitchen remodel; and 82 cents back on a new wood deck. We've studied these numbers for the last 15 years, and the story is the same: don't remodel with the goal of boosting your home value.

- **It's Always Something . . . Case in Point:** In the last two years, Craig and Jamie have had a new backyard fence installed, the patio leveled and resurfaced, had new chimney caps installed (squirrels!!), replaced their ancient washer and dryer, bought a new pool liner, purchased a new HVAC unit, and have paid for numerous pesky plumbing and electrical jobs. They budgeted for most of this, but have no illusions that any or all of the improvements will add another $35,000 to the value of their home. If you've owned your home for 10+ years, have any of you *not* had similar projects? These too are the costs of owning and *enjoying* a home.
- **Do You Really Know What Your Home is Worth?** With real estate, the value is a guess. With portfolio investments, you know the value as of the close of the market, daily. Sure, you can talk to your real estate agent or look on Zillow for your home value, but it's still a guess. You won't know what it's "worth" until you sell your home, after negotiating with the buyer, and deduct all the closing costs (including a 5% or 6% fee for the agents).
- **To Be Fair:** You've got to live somewhere, and unless you live with mom and dad, you'd be renting if you didn't own your own a place. Your rent for something comparable to your home could easily be twice what your mortgage payment is. And so, by owning . . . you're actually saving the difference. For a $500,000 home in Nashville, this might be $15,000 to $20,000 per year. Yet, the "carrying costs" for owning are so much higher than renting (mortgage interest, higher utility costs, and renovating/annual maintenance costs). With 5% annual carrying costs for a home, your home "investment" might be break even. Maybe.
- **The National Association of Realtors Weighs in:** According to Lawrence Yun, chief economist for the NAR, the pace of home appreciation is simply not sustainable (homes have appreciated for 6 years in a row), as the run-up has greatly outpaced wage growth. Home mortgages are a full point higher than they were a year ago, and home prices as a multiple of income are 10% higher than the 40-year average. Something's got to give, and it is likely that home appreciation will slow.

Generally, a home is *not* a good investment. They can appreciate significantly in bursts, but every area of the country has seen real estate value declines and prolonged slumps over the years. For every homeowner who has truly made a bundle, there are 10 others who put about as much into their home as they ever got out, save one thing . . .

The one thing that can always make a home a treasure is the memories you create and share there. That's the real value of a home.

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