

“Your Home Can Be a Lousy Investment”

In a 2012 survey by the National Association of Home Builders (NAHB), 75% of Americans said they believed owning a home is the best investment they can make. Again, in 2014, a Gallup study found that Americans thought real estate was as good a long-term investment as stocks. But, a little research on the subject tells a different story . . .

- **How Fast Do Homes Appreciate?** According to data from the Federal Housing Finance Agency (FHFA), through the first quarter of 2015, houses appreciated 114% in Nashville since 1991. That’s an average of 3.25% annually. Houses in the San Francisco area saw a gain of 216% during the same 24 year period . . . an average gain of 4.9% annually. Housing can go through protracted periods where there is very little price appreciation.
- **How Fast Do Investments Grow?** During the same 24 year period reported above, the S&P 500 Index* (no dividends reinvested) rose 534%, an average of 8% annually. A 60/40 stock to bond mix grew 598% over that time, an 8.34% average annually (DJ Moderate Mix, reported by Morningstar).
- **Uncle Bob’s Big Deal:** Bob’s been boasting about his investing acumen. “I bought this house 5 years ago for \$400,000. \$80,000 down payment. I can sell it for \$500,000 today, so I’ve already made \$100,000.” Not so fast Bob, you think. Your 3.5% fixed, 20-year mortgage cost \$38,000 in interest (after the tax deduction); and what about the \$6,500 in closing costs, Bob? Annual maintenance fees for a home run about 3% of value (Columbia University Millstein Center for Real Estate) . . . so there’s another \$60,000 gone. Bob’s great “investment” may be worth \$500,000 today, and he now owes just \$260,000 . . . but he’s put \$184,500 into it. If he sold the home today, paying a 5% real estate commission, he’d have made about \$30,000 for the 5 years.
- **Where’s the Hot Spot?** Which area had the biggest home price appreciation since 1991? Modesto, CA, Missoula, MT, San Francisco, CA, or Ocala, FL? Surprisingly, it’s Missoula at 261% (5.5% average annual appreciation). Ocala and Modesto were both below 70%, and San Francisco was 216%.
- **Honey Let’s Redo the Kitchen:** According to the annual 2014 study by Remodeling Magazine, few home improvements give you a lot of bang back for your buck. Only one project gave you back 100% in terms of increasing the value of your home. It wasn’t a major kitchen remodel (68%), not the sunroom addition

(49%), or the new roof (72%), but new steel entry doors (102%). You can access the report at: <http://www.remodeling.hw.net/cost-vs-value/2014/>

- **Home Prices Since 1890:** Yale economist Robert Shiller's in-depth studies show that home prices since 1890 have barely kept pace with inflation. He says, home prices have appreciated about 0.3% annually over inflation. Since 1950, the S&P 500 has averaged 5.41% over inflation (9.11% with dividends reinvested). Source: Standard and Poors.

The Fact Remains We know there are exceptions but, for 90% of us homes are not good "investments". Talk about something that's cyclical and has hidden fees . . . property taxes, insurance, utilities, lawn care, mortgage payments, roof repairs, and the new washing machine. And just when you think things are going smoothly, the drip pan for the hot water heater overflows while you're on vacation. Yet, we love our homes. They are places of memories, of relaxation, of gathering with friends and family, quiet evenings with a good movie, and watching your kids grow up. They can be wonderful places to live and enjoy, *but they are not investments.*

When you consider the purchase of a home, a downsizing, or a remodeling project, why not give us a call? We'll "run the numbers" for you, and see if it makes sense, which it often does.

*All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.

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