

HOMEOWNERSHIP AS AN INVESTMENT



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In terms of an investment, the safest way to buy is to:

- Buy a home for the longer term
- At a monthly cost that is affordable to you now
- Using a long-term, fixed rate loan, refinancing to lower rates if that option opens
- While keeping an adequate financial reserve for emergencies
- Resisting the urge to use one's home as an ATM during times of significant appreciation

If one keeps to those rules, then it is usually true (quoting a New York Times editorial) "Renting can make sense as a lifestyle choice...as a means to building wealth, however, there is no practical substitute for homeownership."

Homeownership has always been part of the American Dream. As a result, many people assume owning a home as a right, even an obligatory thing to do without fully contemplating the benefits and risks. Do your homework to fully evaluate the pros and cons of the investment you are about

to make, as you would any investment decision, before signing on the bottom line.

The benefits of investing in a home include appreciation, home equity, property tax deductions, and deductible expenses. Appreciation represents the increase in a home's value over time. It is important to note that real estate prices are cyclical – so don't expect a property's value to drastically increase in the short term. However, if you remain in your home long enough there is a high likelihood you will be able to sell your home for a profit due to appreciation in the future.

Your equity will also grow as you pay down your mortgage, with less of your payment going towards interest and more towards lowering the balance of your loan. Building equity takes time to lower the principal balance owing on the mortgage loan, unless of course you have the ability to make a large down payment or consistent prepayments. While paying down your mortgage works the same no matter where you live, market value growth varies by location. According to the Federal Housing Finance Agency (FHFA)



House Price Index (HPI), real estate prices rose on an average of 32.88% over a 5-year period ending 12/31/2019 in the US overall – however, prices in the Western United States climbed by an average of 40.39%.

Keep in mind that the upfront cost of investing in a home can be high. There is more to your expenses than the property's selling price and interest rate on your mortgage. Closing costs can range from 2% to 5%. To recoup these costs, experts advise staying in your home for at least 5 years.

In summary, homeownership is a financially savvy way to save money over time while having something valuable to show for it, especially when measured against renting.

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