

Housing as an Investment
NAR 2007

Housing is a key driver of the economy and continues to be a solid long-term investment for most American households. Housing generally provides steady returns unaffected by volatile movements in the stock market, and sales volume in 2007 will remain at historically high levels, driven by a strong fundamental demand.

Homeownership is how many American families begin to accumulate wealth, according to studies by the National Association of Realtors[®], America's leading advocate for homeownership, and the U.S. Federal Reserve Board.

Since record keeping began in 1968, the national median existing-home price has risen every year, even during recessions and periods of sales decline. Typically, in a balanced market, home values rise at the general rate of inflation plus 1.8 percentage points.

Buying a home should be approached as a long-term investment, providing both equity accumulation and tax benefits over time. Even when temporary corrections have occurred in markets that became overheated during the most recent housing boom, most of the country has never experienced a downturn in home prices since modern record keeping began.

Low mortgage interest rates, a growing number of households, strong demographic factors, economic growth and job creation have helped drive record home sales.

Demographic demand favors housing over the long term.

The children of the baby boomer generation, often called echo boomers, are the second largest generation in U.S. history, comprising about 75 million people born from 1982 to 1995. The oldest of these echo boomers are now entering the years in which people typically buy a first home, while the country's 78 million baby boomers remain in peak earning years.

Immigration continues to rise. According to the Joint Center for Housing Studies at Harvard University, the total number of households headed by an immigrant is expected to increase by nearly 2 million over the next two years, and by 2008, these households will represent almost one-third of all households in the United States.

Minority homeownership rates have been trending up. According to the *2006 NAR Profile of Home Buyers and Sellers*, nearly one-third of recent first-time home buyers were members of a minority population.

Dollar for dollar, the rate of return on an individual's cash downpayment on

a house is substantial. Home buyers typically use their own money to cover only a small portion of the purchase price, but the home appreciation they realize is based on the total value of the property.

Housing is not a quick-in, quick-out investment. When purchased for the long term, housing is one of the safest investments consumers can make. In addition to the savings accumulated through a buildup of equity and tax advantages, a home provides shelter. No paper investment provides this benefit.

According to the NAR study, first-time home buyers made a median downpayment of 2 percent, while repeat buyers who financed their purchase put 16 percent down. However, 11 percent of repeat buyers paid cash, thanks to the equity they had built in their previous home.

According to Harvard University's Joint Center for Housing Studies, the rate of return on a housing investment dramatically increases the longer it is held. For instance, an owner whose home appreciates at a typical annual rate of 5 percent and who made a cash downpayment of 10 percent generally will receive a 94 percent return on that cash after owning the home only three years. After owning for five years, a homeowner can expect a rate of return on the downpayment to increase to 225 percent; after 10 years, the rate of return jumps to 623 percent.

The stock market has experienced wide swings in value over the past 20 years. During that time, overall home values have continued to rise steadily and contribute significantly to household wealth and spending patterns.

Since the early part of this decade, many consumers have diversified their portfolios into real estate, often by purchasing a second home – a wise and practical move that provides relatively safe long-term returns from a tangible asset.

The sharp changes in the financial markets since the beginning of the decade underscore the stability of residential real estate as a safe choice for consumers. Local housing markets may experience temporary price declines as well as rapid price increases in the short term, but over a typical six-year period of homeownership, home values typically rise at a normal, gradual pace. Exceptions to this general trend almost always result from prolonged localized economic downturns, often driven by job and population losses.

Homeowners accumulate significantly more wealth than renters. According to the most recent Federal Reserve Survey of Consumer Finances, the median net wealth of a renter household is \$4,800, while the median net wealth of a homeowner household is \$171,700. Clearly, owning a home is the best way for most families to build a nest egg.

Homeowners use their home equity to get cash for emergencies as well as for the purchase of big-ticket items, and have more confidence in housing wealth gains than stock gains that could be unsustainable. In addition, the capital gains that owners realize from the sale of their home are a significant source of down payment funds for most repeat buyers; those funds are also used for other purposes that stimulate the economy through consumer spending.



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