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Why Buy?

Owning your own home offers many benefits ranging from increased stability and security to investment and tax advantages.

Most homeowners find satisfaction and pride in owning their own home. In the same survey, 76 percent of the homeowners and 66 percent of the renters interviewed considered pride in ownership an important reason for buying.

The NAR survey revealed that almost 70 percent of homeowners and renters found avoiding rent to be an important reason to buy a home. Since renting offers no equity, no tax benefit, and no protection from regular rent increases, it's like watching your hard-earned money float away. Think for a moment: if you're now paying \$600 per month for rent (\$7200 per year) and your rent increases by 6 percent a year, that means that next year you'll be paying \$7632, in five years you'll be paying \$9054, and in ten years you'll be paying \$12,164. After ten years, you will have spent \$94,856 on rent and have nothing to show for it.

Buying a home you can afford is generally a wise financial choice.

- **Unlike renting, homeownership also offers the advantages of increasing equity on your investment.** Homeownership always has been, and continues to be, the single largest source of savings for American households. Homeowners build equity and can borrow against it. In 1993, home equity accounted for 44 percent of the nation's total net worth—far more than retirement accounts, stock shares, rental properties, etc.
- **Compared to the alternative of renting while investing in stocks, buying a home wins over the long term.** Consider this example: Two identical families have \$16,800 to invest. Family A uses the money for a down payment on a \$140,000 home while Family B invests in stocks and rents a comparable home for \$750 per month, initially. After 10 years, the family that invested in a home is \$34,660 ahead of the family that invested in stocks (based on national averages for home and stock market appreciation and taxes paid). Furthermore, the homeowner has paid about \$5000 less for housing than the renter over the 10-year period (again, based on national averages and assuming only a three percent rent increase annually).
- **Homeownership also carries significant tax benefits since property taxes and the interest paid on a mortgage are tax deductible.** Profits earned on other investments are subject to a 20 percent federal tax rate for most investors.

- **Compared to other alternatives, a home is a relatively stable investment.** Homes tend to steadily increase in value while other investments may be extremely volatile. For example, over the past 28 years, average stock values have increased by as much as 35 percent in one year and dropped by as much as 24 percent. The average annual increase in the New York Stock Exchange Price Index was 6.9 percent from 1969 to 1996. Average stock prices dropped in 8 of those 28 years. During the same 28 years, while home values experienced ups and downs in individual housing markets, they remained stable and reliable nationally, averaging a 6.5 percent increase each year. The largest annual increase in the price of existing homes was 14 percent; the smallest, 2 percent.
- **Over time, the return on your investment in your home can be substantial.** For example, a new home purchased in 1977 for \$48,800 (the median price for new homes at that time) was worth \$150,707 in 1997. Assuming that values continue to increase at the same rate, the home will be worth \$264,844 in 2007. (This example is based on national statistics; appreciation rates and economic conditions vary in individual housing markets.)
- **Additionally, the rate of return on a home is much greater than that of other options.** A stock investor, for example, must pay the entire purchase price up front, while a homebuyer invests only the amount of the down payment. If a buyer invests \$10,000 in a down payment on a \$100,000 home, and the home's value increases by \$5000 the first year, then the buyer has realized a 50 percent return on his investment.
- **Finally, once you own a home and have built up some equity, it is easier to move up to a larger and/or nicer one-but you have to start somewhere.** Buying a home is a good investment in your future.