

“INVESTMENT”- NOT REALLY

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If you think purchasing a home to live in is a good investment, take a look:

<http://observationsandnotes.blogspot.com/2011/07/housing-prices-inflation-since-1900.html>

Your residential real estate is your “HOME” – that is so much more than just being your house. How much is that worth and whether it improves in value is up to you and yours. Make the most of it!

A personal residence is shelter that you have some degree of choice in selecting. When we purchase a house, we all tend to say that, “Yes, I own my home” – even though that’s most often not really true. In fact, in many if not most cases, we are making payments of principal and interest on a mortgage that is held by a bank or investor of some description. Only when we purchase our home with cash or that mortgage is paid off can we accurately say that we own it. Until then, we are just making payments on the promissory note that we sign at settlement - much like making car payments.

What’s the alternative? Other than being homeless, or living with friends or relatives for free the only choice is to rent or lease. This choice – to purchase or rent – can be as simple as taking the time to do a little financial analysis. Unless you are freeloading somewhere, you have to pay something every month no matter where you live. So, why not take the time to do the math instead of blindly assuming that one or the other is better. Determine what the current monthly rent is in the apartment or rental home that you might actually live in – or that you already do live in. Let’s say it is \$2,000 per month. There are some markets where that will get you a pretty decent place to live. Use whatever amount works for you.

Keep in mind that with the rental, there is probably going to be a need for some up-front cash: first and maybe last months' rent, and a security deposit – let's say that amounts to \$4,000 to \$6,000. Generally speaking, that should be your total monthly expense for housing – unless you have to pay for parking, trash collection, or other “necessities”. You should however have renters' insurance to cover your personal possessions and liability. That won't be too expensive though.

Now let's stay in same general vicinity – say within a ten mile radius, and find out what types of houses we can purchase that would result in the same monthly expense. You'll probably be able to find a decent 3 bedroom, 2 bath single family home on a small lot for \$250,000. Assuming your credit score and credit profile is good, you can probably qualify for a no money down, 30-year, fixed interest rate loan with no points. Including principal, interest, taxes, homeowner insurance, and private mortgage insurance (PMI), the monthly payment should be approximately \$1,750 +/- (the exact amount will be determined by what the property taxes are, your credit score – and the resultant interest rate and mortgage insurance rate). For this example, I've simply used \$7 per thousand of loan amount: $7 \times 250 = 1,750$. You'll also have to add on the monthly fees for HOA or Condo dues if applicable. What is not yet accounted for are the necessary closing costs. In today's market it is commonplace for sellers to contribute 3 percent of the sale price toward the buyer's closing costs. That would amount to \$7,500 in this example. Worst case, you may still have to come out-of-pocket for a few expenses incurred in the home buying process – maybe another 1 percent or \$2,500.

Hmm...sounds like it might be less expensive to purchase than it is to rent. Run your own analysis, in your own market, with your own figures, and see what happens. Any capable REALTOR® or mortgage lender would be happy to assist you for free.

Does that mean that purchasing your own home is a good investment? No, not necessarily. That determination is far more complex and dependent on many, many, unpredictable factors. There are lots of advantages and disadvantages to consider when choosing the form of shelter you live in.

DISCLAIMER

John P. Hale is a licensed real estate agent in Maryland and Pennsylvania. He is affiliated with Coldwell Banker Residential Brokerage in Westminster, Maryland. John has been licensed since 2000 and also practiced in Tucson, Arizona for many years. Mr. Hale holds the following designations and certifications awarded by the National Association of REALTORS® (NAR) and other authorized institutions: ABR-Accredited Buyers Representative, AHWD-At Home With Diversity, CNE-Certified Negotiation Expert, CRMS-Certified Risk Management Specialist, CRS-Certified Residential Specialist, CTA-Certified Tourism Ambassador, e-PRO-Online Real Estate Practice, GRI-Graduate of Realtor Institute, MRE-Master of Real Estate, MREP-Mortgage Real Estate Professional, MRP-Military Relocation Professional, and Workforce Housing Certification.

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