

Quality Asset Management

Grow Your Wealth with Peace of Mind

Why should you own your Home?

By Gil Hanoch, October 1, 2007

There are many benefits to owning the home you live in, when compared to renting. Let's review them:

Psychological pleasure of home ownership. Owning a home has a psychological benefit beyond the financial considerations listed below. You own a substantial physical asset, and this asset is also a place for you to stay.

Freedom to remodel. You have the freedom to modify your home to your liking without a landlord to report to. Money you spend on remodeling may partly increase your home value. This may have some financial value if you borrow the increased value and put it in other profitable investments, or if you ever downsize to a cheaper home.

An automatic savings plan. When buying your home, you commit to save systematically for many years. You commit in advance, and have a huge incentive to keep your commitment – you do not want to lose your home! This is a very important benefit, especially if you have trouble with disciplined saving. The savings include your principal payments, if you pay off the principal over time. Note that this is not a benefit until and unless you make principal payments.

It may turn into an investment. Your home can turn into an investment if you borrow part of its increased value to invest in a place that grows faster than the interest on the loan. A simpler, less common option is that you sell it to buy a cheaper home and enjoy the growth of the home value.

Forced discipline in investing. Typically, you should not sell long-term investments whenever they decline in value – if anything, you should invest more. Unfortunately, most people have the opposite instinct when investing in the stock market. This risk is reduced when you use your home as an investment, for several reasons:

1. You cannot easily find your home value frequently. By not seeing the decline as it happens, you are less susceptible to an irrational panic.
2. You also use your home for living, not just as an investment. If you sell it, you will have to start renting another place, something not desirable after you became accustomed to homeownership.
3. Selling and buying real estate is a fairly long, expensive and time consuming process. You are not likely to choose to do it frequently.

A source of funds in tough times. If you haven't borrowed the full value of your home, you can establish a home equity line of credit on the unborrowed portion of your home, to provide you with money for use in tough times.

Tax benefits. Interest on your mortgage is tax deductible up to a limit. Since the IRS sees your home as an investment, you get a tax deduction.

Own a potentially appreciating asset with limited cash outlay. Since real estate is considered a relatively stable investment, banks are eager to lend most people large amounts of money to own their home. This lets you own an asset that typically appreciates in the long run without having most of its value in cash.

High leverage possible. Large loans let you own an investment with very high leverage. Under the following conditions, you can make significantly higher gains than the actual growth of the home value:

1. You are ready to live in it for a long time.
2. You are very confident you can make the payments, even if many things go wrong.
3. The home value appreciation plus the saved rent is higher than the expenses, including: interest on your mortgage and property tax minus the tax savings on the two, plus repairs.

In certain cases, when structuring your finances right, you can even outperform diversified stock investments.

Summary

As you can see, there are many benefits to owning a home. Despite this list of benefits, you should not rush to buy your first home as soon as the bank will lend you the money you need. There are many conditions for making it a smart financial move. The next article will present the main ones. Future articles will elaborate on some of the benefits of homeownership.

Past performance may not be indicative of future results. Simulated data was used for periods prior to the inception of mutual funds (see [Performance Data Disclosure](http://www.qualityasset.com/disclosure.htm) at <http://www.qualityasset.com/disclosure.htm>). Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this article, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Note that services are limited to investment advice and do not include financial planning and/or non-investment related consultation services. You should not assume that any discussion or information contained in this article serves as the receipt of, or as a substitute for, personalized investment advice from Quality Asset Management. If you have any questions regarding the applicability of any specific issue discussed above to your individual situation, you are encouraged to consult with the professional advisor of your choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.