

Home Ownership Can Make Financial Sense

Remember five years ago when Lehman Brothers was just another name from Wall Street and buying a home was almost universally considered a good investment?

A lot has changed over the last several years – in reality but also in perception. The effects of the financial crisis that triggered the Great Recession will continue to be felt for many years to come and, for better or worse, the financial decisions we make will forever be colored by the events of the recent past.

But don't let those perceptions stop you from making smart financial decisions for your personal future.

Believe me, I understand more than most how getting burned – or watching others get burned – can scare you away from something. I had to convince people that it still made sense to own stocks, and even continue to buy them, following the worst decline in stock prices since the Great Depression. That's not something that I wish to repeat but I can definitively say that it was the right decision. Stock prices have rebounded dramatically and many of those that had the fortitude to own them over the last three years have been rewarded nicely.

Over fifteen years of working as a financial planner I have found myself many times having to try to talk people out of owning more real estate than what was appropriate for their situation. Remember those option adjustable rate mortgages that allowed people to buy houses that they really couldn't afford? I can't count the number of times I used to hear, "I can always sell it if I have to" or the famous, "real estate never goes down because they're not making more of it." Sadly a lot of people suffered (and are still suffering) because they made decisions based on some of those false perceptions.

Now I find myself in a historically unusual spot. Several times over the last few months I've found myself taking the exact opposite side of the real estate debate. Where once I had to tone down the zeal for buying it, now I find myself having to argue with clients about why they should consider owning some.

If you look at real estate as an asset class (which it is) then you need to view it as you would any other investment. And, like other investments, recent performance is not an indication of future results – in fact quite often the opposite is true. The fact that real estate values have fallen does not indicate that real estate prices are going to continue falling, though they could. What it does mean is that you can buy more asset for the money (in some cases a lot more) than you could just a few short years ago.

When you couple the arguably attractive prices with the amazingly low interest rates available for mortgages today, you end up with what history may well judge a good opportunity to buy. Of course, like any other financial decision, you want to make sure that you factor in your unique circumstances before deciding to rush out and put an offer in. And I recommend being relatively certain that you intend to own the property for at

least several years – as recent history has shown us, there is no guarantee of what direction real estate values will move in a given year and you don't want to be forced to sell at an inopportune time.

If you think owning real estate may make sense for you but don't think you can afford it, spend a little time checking before you just cross that option off your list. In some cases owning a home can actually cost less than renting (excluding potential maintenance costs) and you have the added bonus of building equity every time you write out a mortgage check as long as the property value at least treads water.

For example, I have a client that rents an apartment for \$1600 a month and has to pay all of his own utilities. Granted, it is a very nice apartment, but it is a rental none the less. If that client were to buy a house in the same neighborhood the cost would be around \$200,000. If he put just 5% down his mortgage payment, including private mortgage insurance (which is required when you put down less than 20%), escrowed property taxes and home owner's insurance with a conventional 30 year mortgage at the going rate of 4.00% could be less than \$1400 a month.

Yes, obtaining a mortgage is more difficult than it once was but frankly many of the rules that are now being enforced are the ones that lenders used fifteen and twenty years ago and I would argue that they often make sense for everyone involved. You shouldn't be buying a house with a payment that is going to exceed 50% of your income and there is nothing wrong with having to save a little something for a down payment.

The bottom line is that the cost of home ownership is in many cases more affordable today than many people have seen in their lifetimes. Home ownership can give you an opportunity to add to your net worth while at the same time providing for your basic human need for a place to live. And no truly unbiased investor can argue with that.

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