

REAL ESTATE REALITY

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One bit of advice that I have given on the radio show that tends to raise eyebrows is my belief that you should try to eliminate your home as a retirement vehicle. There is an urban myth out there that money spent, or as some state to justify their actions, “invest” on ones primary residence will always pay off in the long run.

David Crook of the Wall Street Journal makes the point, ***“Your home means a lot of things to you, most of them good. Your home gives comfort and protection to you and your family, and it could well embody all your material hopes and dreams. But houses have become much more than just places to live. Your home is probably your biggest asset and the price you could ask for it today is almost certainly much higher than what you paid for it back whenever. As a result houses have become substitute credit cards, as profligate owners borrow their equity to finance everything from cars to vacations. Among thrifter owners, the equity they have built up in the family home has become a vital part of retirement planning...a fourth leg of the now unstable company pension/personal savings/Social Security stool that was long the model for a financially secure old age.”***

David Crook makes the case that economic studies have showed that homes cost more than most people make when they sell and rarely match the long-term returns of stocks and other investments. With the current conditions in the real estate market being dire in many locales, our premise becomes even more viable. The reality is that it is very risky and imprudent to have 70% of your wealth in one single stock; it is therefore equally perilous to have 70% of your wealth in a residence.

When someone sells a house to figure the return they often don't do much more than subtract the price they paid from the price they received when sold. The costs of owning a home, taxes, insurance, repairs and renovations often take a huge chunk of any price appreciation. David Cook makes the point, ***“Think of your sale proceeds another: not as a true profit, but as a huge rebate. Some of the thousands of dollars that you paid into the house over the years are being returned to you sometimes with a bonus, often without.”***

The Wall Street Journal has put together an informative list of things one can do to manage their number one asset.

Think Differently. It's a house not a retirement fund. Stop thinking of your house as an investment, and recognize it for what it really is: an expensive installment-plan purchase that promises you a hefty rebate down the line. The best way to make a true profit on a home is to pay as little for it as you can. That means buy cheaper, quicker, and smarter.

Pay Early Pay Often. Speed up your mortgage payments. A typical home today will end up costing its buyer \$1 million over the next 30 years. The first way to significantly cut that cost is to reduce interest costs. Add \$100 a month to a 6.25%, \$300,000 loan payment and you will shave almost four years of loan payments and \$57,000 of interest. Add an extra \$500, and you will pay off the house in 17 years and save \$170,000. CAUTION: DO NOT defer retirement savings in favor of rapid mortgage payment. Do both.

Watch the Renovating. Build a new kitchen, bath or bedroom because you want it or need it; not because it will make you a profit or enhance the value of your home. According to *Remodeling Magazine's* annual report on the costs and value of home renovations, a top of the line kitchen remodel, like you would see on TV will cost \$108,000 and return \$82,000. A loss of \$26,000, which gets worse if you borrowed the money!

Don't Move So Often. It's the best way to build equity and enjoy the benefits of rising values. According to a study by Harvard's Joint Center for Housing Studies, 15% of homeowners move every year or the equivalent of every U.S. homeowner buying and selling every seven years. Few homeowners have paid off more than 10% of their loan principal by that point. But they will have paid four times as much in interest. When they buy their new house, they start the mortgage clock all over again.

Source:

[Why Your Home Isn't the Investment You Think It Is](#) *The Wall Street Journal* David Crook March 12, 2007