

10 Reasons Real Estate Is the Best Investment on the Planet



It's been a rough couple years for real estate. As millions of Americans struggle to make payments on mortgages worth more than their homes, it's easy to declare real estate an imprudent investment. However, the collapse in home values experienced in the last couple years owes more to the off-the-rails lending standards of the mid 2000's than any long-term investment trend. The fundamentals of the market are still in tact, and real estate is still the best long-term investment on the planet for individual investors. Here are ten structural advantages to real estate investing that do not exist for other investment vehicles.

Investment Partner

The average homeowner has a downpayment of about 10% of the cost of the home. This means that 90% of the initial investment comes from an investment partner (your mortgage lender). Essentially, this means that your investment will appreciate ten times faster than if you just used your own money. Consider this scenario. You have \$20,000 to invest in the stock market. You pick very wisely and your stock appreciates 10% in the first year to \$22,000. Now, consider what would have happened if you invested that same money in a \$200,000 home, which appreciates at 10% in the first year. This home is now worth \$20,000 more than you paid for it. Your initial \$20,000 investment is now worth \$40,000. You have made \$18,000 more by purchasing a home, even though both investments appreciated at the same rate. It should be said that the reverse is true as well. If your home depreciates 10%, you lose your entire \$20,000, while you would only lose \$2,000 if you had purchase a stock that depreciated at the same rate. This is where historical context becomes important. In the last 25 years, homes have appreciated 21 times and depreciated 4 times. In other words, there is a 5:1 chance that investing in real estate will make you substantially more money than investing in stocks.



Tax Credits

When you purchase a home, a large portion of the interest you pay on your mortgage is tax deductible. In other words, the government redistributes money from renters to owners. These tax savings can be substantial--thousands of dollars a year. This is one of the reasons why homeowners accumulate wealth at a faster rate than renters.



Insurable Investment

If you invested in BP one week before the oil spill, you lost 50% of your investment overnight. You cannot insure your investment against poor judgement or freak accidents. On the other hand, a home is endlessly insurable. You can insure it against fire, flood, tornados, earthquakes, burglary, even financial hardship. No matter what the future brings, you can rest easy, knowing that if something does go wrong, you won't be stuck with the bill.



Forced Savings

Millions of Americans struggle to build up their savings accounts. Some lack the discipline, but millions more simply don't have any extra cash lying around at the end of the

month. A home loan acts as a forced savings program. Each month, when you send in your payment, you are accumulating more equity in your home. This money can be accessed through a second mortgage or a reverse mortgage. You can use this money to pay down medical bills, send your children to college, or travel the world.



An Investment You Live In

Every investment comes with its own little perks. Disney shareholders are awarded free entrance into Disneyland on special shareholder days. When you buy a home, you miss out on these little perks, but you get one big one: you get to live in your investment. As perks go, you can't do much better than that. And since there is really no way to get around paying for housing (either rent or mortgage), the question becomes: do you want your monthly housing budget to evaporate the second you send it to your landlord or would you like to have those payments slowly build up equity in a lucrative investment?



Stable Investment

Most investments are theoretical and speculative. An average growth stock will be valued at about 30 times its yearly profits, which means it would take that stock 30 years to realize the value on which the stock price is based. This is why the stock market is so volatile when compared to the housing market. A slight downgrade in a single quarterly earnings report must be compounded 30 times to correctly update the speculative value of the stock. A property, on the other hand, is valued based primarily on the current practical value of the home and its location. There is obviously speculation involved with any investment (how else would one explain the housing bubble of the mid 2000's?), but it is much more conservative in the housing market. You will never see a home appreciate or depreciate 10% in a single day, but stocks experience daily swings of 10% or more all the time.



Certainty and Control

As a renter, you never have complete control over your living arrangement. Your landlord can raise rent, make repairs or improvements that don't reflect your priorities, and demand a certain lifestyle (no pets, no overnight guests, etc.). Furthermore, unless you have a long-term lease, your landlord could ask you to move out with only 30 days notice. Imagine being asked to leave right before



the holidays or before your child's new school year begins. As a homeowner, you have complete control over your home life. With a 30-year fixed mortgage, you know exactly how much your monthly payments are going to be for the next thirty years, and you can plan your life accordingly. More importantly, you are not subject to the whims of a landlord who may not share your family's priorities.

Made in America

As more and more jobs are outsourced to India and China, American workers feel more and more vulnerable. It's not just the cheap manufacturing jobs. Engineers, computer scientists, and technical professionals are on the chopping block too. In this context, buying a home is a true act of patriotism. Nearly all of the jobs associated with buying and selling homes are impossible to ship overseas. Real estate is local, and you can rest assured that the agents, brokers, lenders, inspectors, appraisers, and movers who manage your transaction will be American workers paying taxes and promoting growth in the United States.



Make Your House a Home

As a renter, you are typically not allowed to make any substantial improvements or alterations to your landlord's home--the place where you spend most of your time. This can be tremendously frustrating and limiting to your lifestyle. When you own, your home can be completely customized to your family's lifestyle. For instance, if your son is going out for the high school basketball team, you can install a basketball hoop in the backyard. It's those small, but meaningful adjustments that make a house feel like a home, and those customizations are only available to owners.



Better Communities

Research shows that homeowners (and their children) get better grades in school, volunteer more frequently at local charities, and are even less likely to commit a crime. Homeowners feel a sense of pride in their community and take responsibility for its wellbeing. Buying a home is one of the best ways to become a more productive and responsible citizen. In fact, high home ownership rates within a community have a direct correlation to increased health, wealth, safety, and happiness.

