

Real World Graduation: Question 68: Home Ownership

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Question 68

Why is owning your own home a good investment?

- a) In the long run, values of houses tend to go up, thus owning a home causes a person's net worth to increase over time.
- b) The federal government and most state governments give homeowners an income tax deduction for interest payments made on a house (if it's a primary residence).
- c) It is easier to customize and decorate one's own house to one's own tastes, which is not normally permitted when leasing or renting.
- d) One will be able to live very cheaply after the house is paid off, whereas one never stops paying rent.
- e) A combination of a), b), and d).

Answer to Question 68

This is a trick question. All of the answers are false.

Answer a) is false because although the value of the house value does increase, the price of all the other houses are also increasing. Therefore, to benefit from the increase of the value of your house, you would have to sell it and buy another house whose price is similarly inflated. There are significant costs associated with selling and buying another house: making repairs per the inspection, realtor fees and commissions, loan origination fees, title insurance, etc. It is often better for most people to rent or lease, especially if their occupations require them to relocate often. It is better to own a home only if you intend to stay in that house permanently, which in modern times, is more difficult than it used to be.

Answer b) is wrong because the deduction from income is not an additional deduction; it is in lieu of the standard deduction. It is true that the deduction for interest paid is sometimes greater than the standard deduction, but the homeowner also has additional expenses, such as property taxes and fire insurance.

Answer c) is false: it is a true statement, but it is not relevant because it has nothing to do with the financial aspect of owning a house.

Answer d) is false because the maintenance costs associated with owning a house continue to increase as the house ages. Also, there is rarely any limit to the amount of property taxes that can be assessed on a home; often property tax increases nearly replace the mortgage payment if the house is in a good location and the surrounding area is prosperous. For most people, there is little economic benefit to owning a home; all the benefits are intangible. The exception is some retired persons, for whom owning a home can improve their monthly cash flow. But in general homes are a poor investment because they require maintenance; whereas true investments do not require a constant input of wealth to prop them up.