

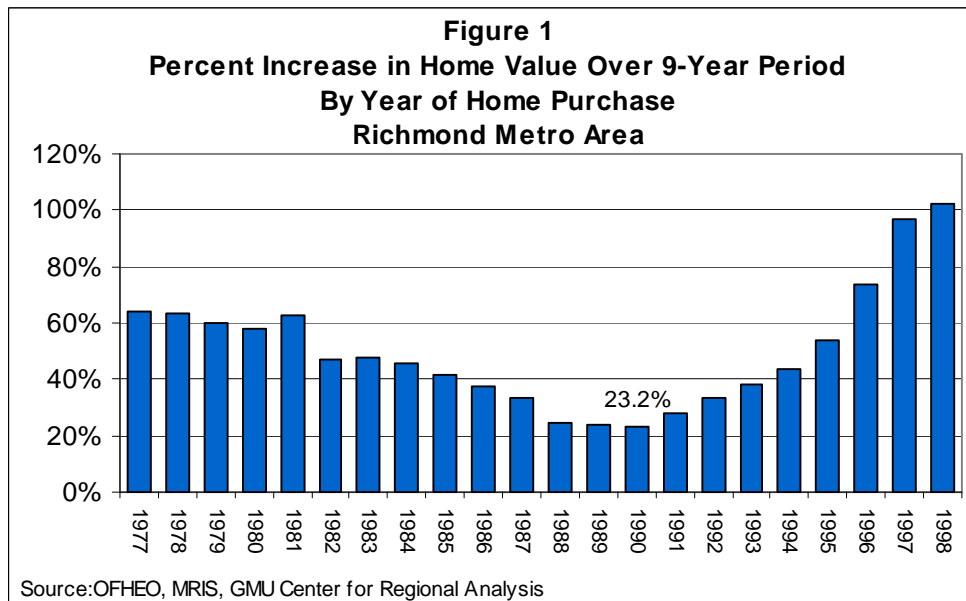
## Buying a Home is a Good Long-Term Financial Investment

By Lisa A. Fowler, PhD and John McClain  
George Mason University School of Public Policy  
Center for Regional Analysis  
Office of Housing policy Research

Why do people buy a home? People often buy a home to feel connected to a community, to have freedom over their living space, to raise a family or to put down roots. Many people anticipate that their home also will be a good financial investment. As an investment, housing has performed remarkably well over time. Even in slower markets, buying a home is sure to provide a positive financial return over time. Over the past 30 years, investment in housing in the Richmond metropolitan area<sup>1</sup> has provided a better return than investing in the stock market.

### Housing as a Valuable Asset

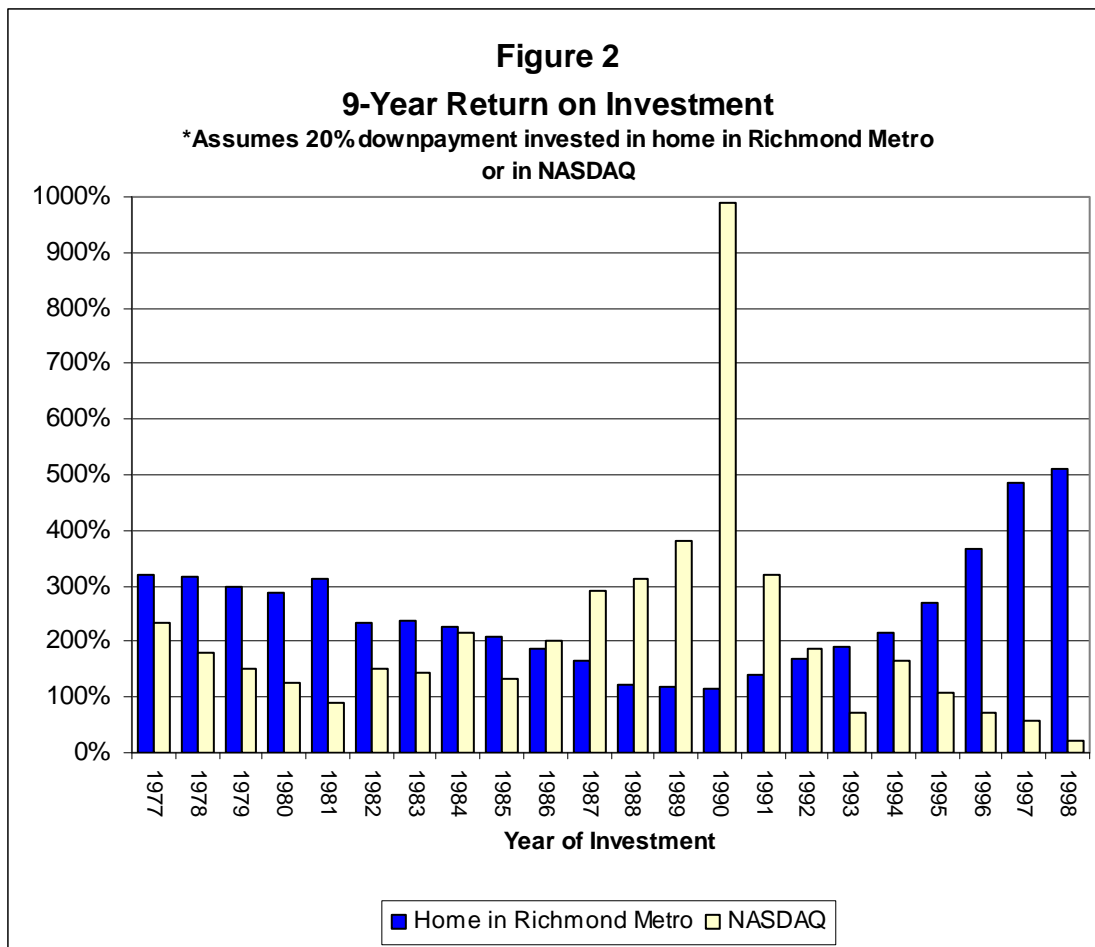
The average homeowner in the Richmond metropolitan area has lived in their home for nine years. If people buy homes to live in, rather than to flip for a quick profit, there is little chance of losing money. Over the past 30 years, there has been no nine-year period where the average home price in the metropolitan area has declined. Home prices have grown, on average, nearly six percent annually or 50 percent over a nine-year period during the past three decades. People who bought homes in the early 1990s in the Richmond metropolitan area—and lived in them the average tenure of nine years—experienced the lowest growth in home values (Figure 1). However, home prices still grew by 23 percent between 1990 and 1999.



<sup>1</sup> The Office of Federal Housing Enterprise Oversight (OFHEO) defines the Richmond metropolitan area as follows: Principal City: Richmond, Amelia County, Caroline County, Charles City County, Chesterfield County, Cumberland County, Dinwiddie County, Goochland County, Hanover County, Henrico County, King and Queen County, King William County, Louisa County, New Kent County, Powhatan County, Prince George County, Sussex County, Colonial Heights city, Hopewell city, Petersburg city, Richmond city

## Housing Providing a Great Return on Investment

Another way to look at the financial benefits of buying a home is to examine the return on investment for a homebuyer. If a \$200,000 home increases in value over nine years to \$300,000, the increase in value is \$100,000. If the homebuyer put down 20 percent at the time of purchase (\$40,000), the appreciation results in a return on investment of \$60,000, or a 50 percent return on his investment. (The return on the investment in the home is the increase in the value of the home, minus the down payment amount.) Figure 2 shows the nine-year return on investments in housing in the Richmond region and investments in the NASDAQ stock exchange over the past 30 years. Assuming an individual invested 20 percent of the average sale price of a home in the Richmond metropolitan area in the NASDAQ, Figure 2 shows that he usually would experience a lower rate of return on his investment compared with buying a home. (The notable exception is the 1990-1999 period when the value of the NASDAQ increased by nearly 1,000 percent during the technology boom.)

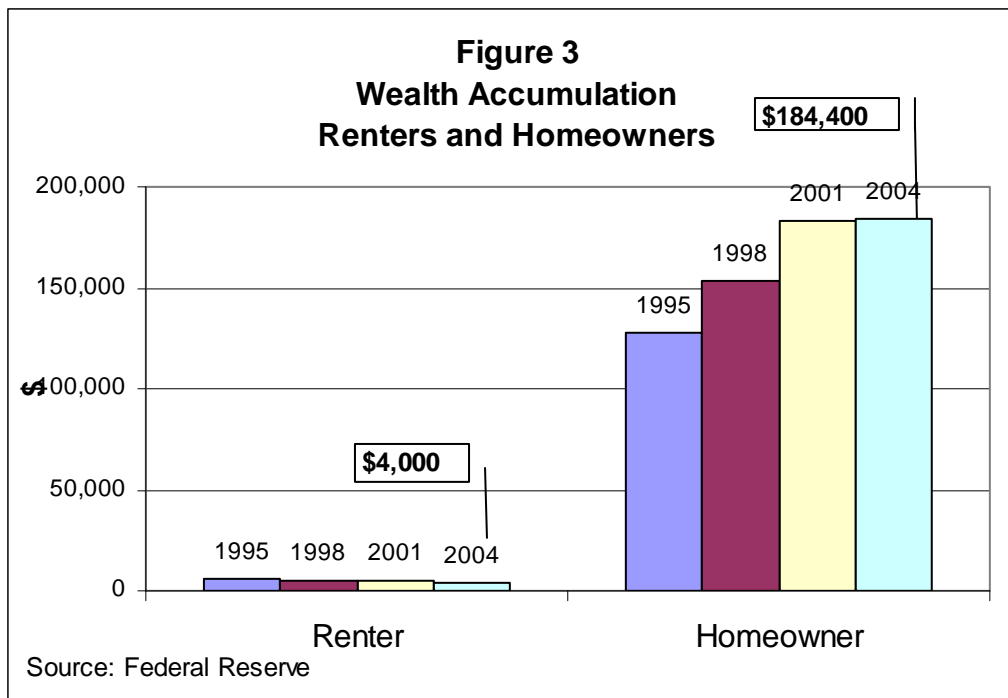


However, in only seven years over the last thirty years was an investment in the NASDAQ superior to investment in the Richmond area housing market, and over approximately three decades, the average nine year change was 250% for investment in a house in the Richmond area and 209% for investment in the NASDAQ.

At the same time, however, the metro area economy was experiencing slower than average growth. In 1991, the Richmond metropolitan area lost more than 11,000 jobs. The value of homes quickly rebounded as the region's economy improved. Home price appreciation increased steadily over the late 1990s. As we all know, home values have increased spectacularly over recent years. A home bought in 1998 was worth more than twice its purchase price nine years later.

### Housing Wealth

Perhaps the best financial rationale for buying a home is that it provides people with an unrivaled opportunity for wealth creation. According to the Federal Reserve, homeowners accumulate 45 times more personal wealth than do renters (Figure 3.) In 2004, the wealth of an average homeowner was more than \$184,000, compared with \$4,000 for the average renting household.



In the end, buying a home is about more than a financial investment. Potential buyers who plan to live in a home for more than one or two years, and who want to take advantage of continuing low interest rates, there is no reason not to buy a home now in the Richmond metropolitan area. Based on a review of 30 years of data, the fear of failing to realize a return on investment in a home in the region is unfounded.