

# To Buy Or Not To Buy?

## Housing: *always* a smart investment

By Lisa A. Fowler, PhD and John McClain, Senior Fellow  
Center for Regional Analysis

### 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 settle down. Many people anticipate that their home will be a good financial investment. As an investment, housing has performed remarkably well. Even in slower markets, buying a home is sure to provide a positive long-term financial return. And during the past 30 years, in Washington D.C., investment in housing has provided a better return than investing in the stock market.

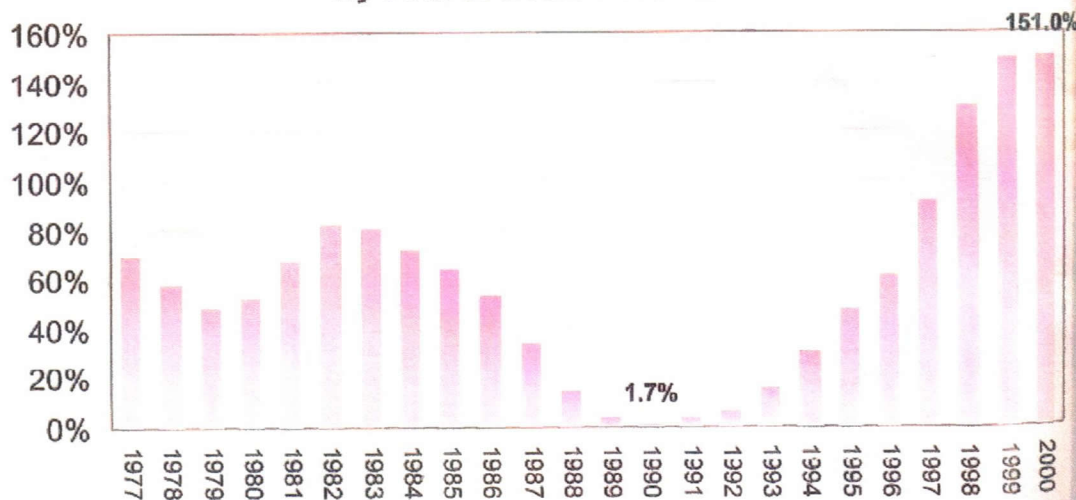
### A House is a Valuable Asset

The average homeowner in the Washington, D.C. metropolitan area has lived in the same home for seven years. If people buy homes to live in, rather than to flip for a quick profit, there is little chance of losing money. During the past 30 years, there has not been a seven-year period where the average home price in the metropolitan area has declined overall. Home prices have grown, on average, nearly 8 percent annually or 54 percent during a seven-year period in the past three decades. People who bought

homes in the early 1990s in the metro area—and lived in them for an average of seven years—experienced the lowest growth in home values (Figure 1). However, home prices grew 1.7 percent between 1990 and 1997.

At the same time, however, the metro area economy was losing jobs. The region was particularly hard hit in 1991 and 1992 when 61,000 jobs were lost, primarily due to the national recession.

Figure 1  
Percent Increase in Home Value Over 7-Year Period  
By Year of Home Purchase



Sources: MRIS, GMU Center for Regional Analysis and The Office of Federal Housing Enterprise Oversight (OFHEO)

The value of homes quickly rebounded as the region's economy improved. Home price appreciation increased steadily during the late 1990s. Then at the turn of the century, home values increased significantly. A home bought in 2000 was worth 151 percent more than its purchase price seven years later.

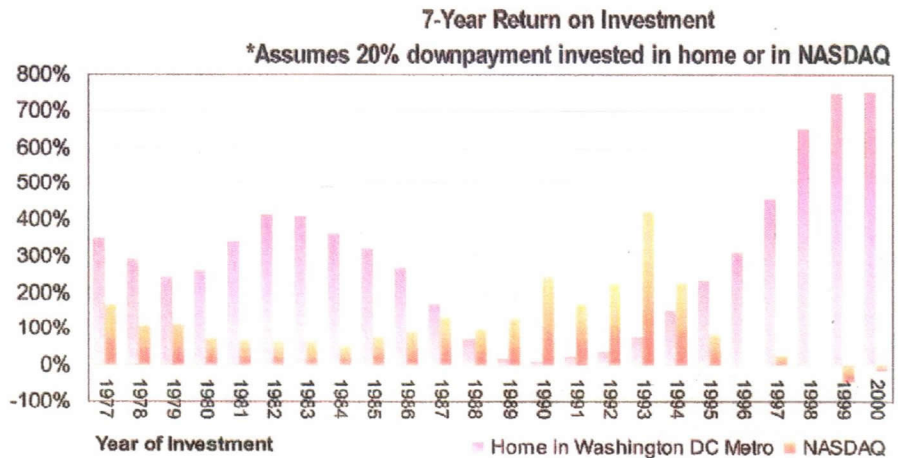
## Housing's Return on Investment

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 during seven 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 would result in a return on investment of \$60,000, or a 50 percent return on the 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 seven-year return on investments in housing in the Washington, D.C. region compared with investments in the NASDAQ stock exchange during the past 30 years. Assuming an individual invested 20 percent of the average regional sale price of a home in the NASDAQ, the graph shows that there usually would be a lower rate of return on the investment compared with buying a home.

In some periods, the stock market provided better returns than housing. In particular, in the early 1990s, one would have been better off financially investing in the stock market than in metro area housing. However, in only seven of the last 30 years was an investment in the NASDAQ superior to investment in the Washington, D.C. area housing market. During the last 22 years, the average seven-year change was 292 percent for investment in a house and 108 percent for investment in the NASDAQ.

Figure 2



## Housing Wealth: Financial Plus Quality of Life

Perhaps the best financial rationale for buying a home is that it provides people with an unrivaled opportunity for the creation of wealth. According to the Federal Reserve, homeowners accumulate 45 times more personal wealth than 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.

However, buying a home is about more than a financial investment. For potential buyers who plan to live in a home for more than one or two years and want to take advantage of continuing low interest rates, there is no reason not to buy a home now in the Washington, D.C. metropolitan area. According to 30 years of data, there is little reason for homebuyers to worry about realizing a return on their investment. Buying a home, especially in this region, is always a smart investment.

**Wealth Accumulation**  
**Renters and Homeowners**

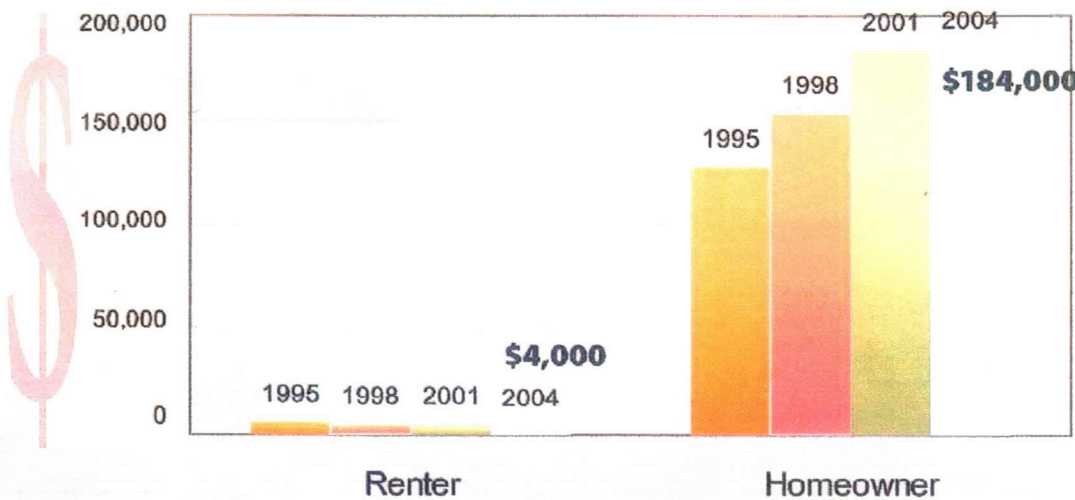


Figure 3