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# Home Still Good Investment

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NEW YORK—There is fresh evidence that buying a home is one of the best investments around. Over the long haul, owning a piece of residential real estate has proved to be a better hedge against inflation than U.S. Government bonds, Treasury bills or common stocks.

Common stocks, in fact, according to a study conducted by Eugene Fama and G. William Schwert, have been hammered down in price so much that they have provided no protection against the rising cost of living.

"Only private residential real estate," the two men conclude in the current issue of the *Journal of Financial Economics*, "is a complete hedge against both expected and unexpected inflation."

Fama is the Theodore O. Yntema Professor of Finance at the University of Chicago's Graduate School of Business. Schwert is an assistant professor of finance at the University of Rochester's Graduate School of Management.

**THEIR CONCLUSION**, based on regression analysis and other tools of the statistical trade, is a factor that has to be taken into consideration by anyone faced with the question of whether to buy or rent.

As often as not, of course, the answer is framed in terms of personal preference rather than hard numbers. Some people are apartment dwellers because they just don't like to fuss with the leaky faucets or balky furnaces that are the lot of most homeowners.

At some point in the decision, though, investment values have to come into

play. Mainly because of the rate at which land and construction costs have increased, the price of a new home has all but torn through the roof—from an average of about \$23,400 in 1970 to almost 150,000 last year. The price of older homes has climbed pretty much in tandem with that gain.

**THE LIKELIHOOD** is for a continuation of that long-term trend, though not necessarily at the same rate. A confirmed apartment dweller might prefer to put his or her cash to work in some form of investment—government bonds, Treasury bills or even a savings account.

The cash working for the apartment dweller would be the equivalent of a down payment, plus such closing costs as prepaid taxes, insurance premiums and loan discounts. On a \$50,000 home, all of those costs would total at least \$6,000.

At 6 percent interest, the money would double in a dozen years. The apartment dweller wouldn't be as far ahead as the homeowner, but the Fama-Schwert study suggests that the spread wouldn't be insupportably wide if the cash had been put in government securities. They are highly liquid investments that can be shifted around to take advantage of changes in rates, and tend to run more or less abreast of inflation. One of the advantages of renting is financial flexibility.

The Fama-Schwert study doesn't go into the tax advantages of home (or co-op or condominium) ownership. Mortgage-interest payments and real-estate taxes can be written off against federal and most state and local income taxes. The effect of those write-offs is to lower the homeowner's cost of shelter.

**THE TAX SAVINGS** help make owning significantly cheaper than renting over a long period of time. The longer you own, the cheaper the comparison becomes.

That is because interest costs decline with the equity buildup in the house. The tax shelter remains, though, because the fall in interest charges tends to be offset by rising real-estate taxes.

For short periods, however—up to three years or so—the costs of buying and selling a house (closing costs, commissions and the like) can chew up even run-away resale values. Thus, executives who move around a lot may be better off renting than buying.

One of the big pluses of owning is the forced savings of monthly mortgage payments. Those savings are comparatively small in the early years, but build rapidly in the later years. It takes a decade, for example, to pare a 30-year loan of \$22,300 at 7.5 percent down to \$19,400. The balance drops to \$13,150 after 20 years and all of that would be retired in the last 10 years of the mortgage. The equity buildup, plus the lift of rising prices

is the big reason to be a better buy than the stock market, but there are situations in which renting is the better bet.

**IT IS BETTER TO RENT** when:

—You want to settle into and learn more about a community before buying.

—You aren't sure whether salary increases will come along quickly enough to enable you to afford as much house as you would like to buy.

—You aren't sure where you want to live or how much house you need.