Attention Homeowners: 5 Reasons Why Your House Is a Terrible Investment

Description

Survey after survey has proved it.

Canadians overwhelmingly agree that the best place to stash your wealth isn't in stocks, or bonds, or even gold. It's real estate.

It's easy to see why, especially for folks who live in Toronto or Vancouver. Real estate in both of these markets has been an unbelievable investment over the last 20 years. This attitude has spilled over to other markets as well, even though they haven't performed as well.

How many times have you heard a variation of the expression, "you can't go broke owning real estate?"

But there's a difference between buying real estate to live in and real estate as an investment. The latter can be very lucrative. The former isn't. At best, it's a store of value.

There are plenty of reasons to buy property. It's nice to own something. Dealing with landlords can be a pain. And stability is worth something.

But that doesn't make such a decision a good investment. Here are five reasons why investors should really rethink traditional thinking surrounding their principle residence.

It's expensive

Homeowners don't spend a lot of time analyzing the costs of owning their own place. These costs add up fast.

Renters aren't responsible for any maintenance. When the dishwasher breaks down, they phone the landlord. A homeowner is either stuck fixing stuff themselves or calling a professional.

Dishwasher repairs are just the beginning. A new roof or replacing a furnace can cost thousands.

Owners also have to pay property tax, fire insurance, and a myriad of other expenses. You could argue a renter indirectly pays for that stuff, but in today's market landlords are often subsidizing renters.

Interest is a killer

Even with today's low rates, interest can really add up over the life of a mortgage.

Say you manage to secure a $300,000 25-year mortgage at 3%. That works out to $1,419.74 per month, or $425,922 over the total life of the loan.

Say after 25 years the value of the property has increased from $300,000 to $600,000. The total return isn't 100%. It's more like 41% over 30 years. It doesn't take a math genius to be disappointed in that.

Big leverage

Controlling a giant asset with only 5% down is a great wealth-building move when real estate increases. But what if it doesn't? Negative equity is a very real risk that most homeowners don't take seriously.

Say you put $15,000 down on a $300,000 property. Prices fall 10% and then you're forced to pay 7% of the remaining value to sell. Suddenly you're left with just over $250,000.

A $50,000 loss on a $15,000 investment is catastrophic. It's something most young homeowners just can't afford.

A troubled asset

There's one big plus to having a paid-off home. The amount of money normally put towards rent or a mortgage payment is freed up to invest in other things. That's a good thing.

But there's just one problem. Many people — especially retirees — need their assets to generate income. It's very hard to turn a paid-off house into an income stream.

Compare that to owning a REIT like **H&R Real Estate Investment Trust** (TSX:HR.UN), which pays a handsome dividend of 6.3%. So, $200,000 worth of H&R shares would pay $1,051.66 in monthly income. But $200,000 worth of equity in a house would pay nothing.

No liquidity

Selling a property is easy when the market is rockin'. But what about a bear market?

I've seen it time and again where I live. A certain kind of property sells quick. Others sit on the market for months or even years before the owner finally gets frustrated and practically gives the house away.

A portfolio of stocks is a much better choice if you need cash. They can be liquidated in minutes if need be.

The bottom line

There are plenty of reasons to buy a home, provided one does so responsibly. I'm a homeowner and don't regret my decision for a second.

But at the same time, I'm under no false pretenses. My home is not an investment. I bought it because I wanted stability and my own space. If it manages to go up 1% a year after I pay expenses, I'm happy.

Perhaps more people should look at home ownership in this way.

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