



## Attention Homeowners: 3 Reasons Why Your House Is a Terrible Investment

### Description

Despite just recently having to deal with a broken furnace — an inconvenience that cost me \$140 and some stress — I'm still happy I'm a homeowner.

But unlike many other folks, I'm under no illusion my house is an investment. In fact, I characterize it much like I do my car. I enjoy owning a nice car, and it serves the purpose it's designed to do. But my car, like my house, is nothing more than a consumable item.

This attitude certainly bucks conventional wisdom, and your realtor will likely say I'm nuts for thinking this way. After all, look at how much the average house has gone up in Toronto over the last five years, never mind the last 40.

That might be true, but I can counter with markets like Fort McMurray or Calgary, places where it hasn't paid to own over the short term. And what people ignore about house price appreciation is how much it costs to maintain a house.

So, sorry, homeowners, but I don't think your house is a very good investment at all. Here are three important reasons why.

### Cost of ownership

One thing that surprises many homeowners is just how much it costs to continue to live in a fully paid home.

Taxes are a big expense. My property taxes are approximately 1% of the value of my house, and the city is getting paid no matter what. House insurance has ballooned in recent years too, it's now almost as expensive as my taxes.

And then there's the big one, which is maintenance. I'm lucky enough to have purchased a house with most of the upgrades already completed. But I'm just delaying the inevitable. I know that I'll have to replace the roof, furnace, and various appliances sooner or later. Experts say these repairs cost

anywhere from 1% to 5% of the value of your home each year.

Put all of these together, and it costs me hundreds of dollars each month in unavoidable costs just to live in my house. These costs are never deducted when someone brags about how much they made on their savvy home sale.

## Opportunity costs

Home ownership is a crummy asset, especially when you have a lot of it but haven't quite paid off the mortgage.

Say you own a \$500,000 house and you've worked hard to pay down \$400,000 of the mortgage. The house is 80% paid off, and you are feeling pretty good about it.

But what exactly are you gaining from this? Yes, you're slowly getting richer with every dollar in debt you pay off. But that capital isn't really accessible. It's tied up in an illiquid property. The only way to access that wealth is to borrow against your house.

Compare that to \$400,000 invested in stocks. That capital can be accessed in just a few days. And if it's put to work in [dividend-paying securities](#), it can spin off anywhere from \$10,000 to \$25,000 in annual income. That's a much better deal than tying up a bunch of money in home equity.

## Compare apples to apples

From 2005 to 2019, the average Toronto home has appreciated by approximately 7% each year. That's a stellar result for real estate — an asset class that typically increases by around the rate of annual inflation.

Interestingly enough, the TSX Composite Index also returned about 7% each year since the beginning of 2005, assuming you reinvested your dividends into more shares.

Some might declare that a win for real estate, but let's not get too excited. [Toronto's property market](#) was the best-performing metro in the whole nation. Folks who lived anywhere else underperformed a portfolio of stocks.

But it gets worse. People who invested in stocks didn't have to pay any property taxes. They didn't spend a nickel on insurance or house maintenance, either. And they definitely didn't replace perfectly good flooring or kitchen cabinets because they didn't like the color.

## The bottom line

There's nothing wrong with owning property. Paying off the mortgage is an incredibly liberating feeling. And it's nice to drive home every night to something you own.

But don't kid yourself. Real estate is, at best, an inflation hedge. Once you factor in how much it costs to own, you won't consider it an investment any longer.

## CATEGORY

1. Investing

## PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

## Category

1. Investing

### Date

2025/08/20

### Date Created

2019/12/08

### Author

nelsonpsmith

default watermark

default watermark