

Study says homeowners shouldn't count on property appreciation creating wealth

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The American Dream of homeownership as the path to creating wealth may be due for a revision. A new study by faculty at Florida Atlantic University, Florida International University and the University of

Wyoming finds that the property appreciation most homeowners expect when buying a home may be relatively meaningless in terms of building wealth.

The study, published in the *Journal of Housing Research*, found that households through their own actions have more control over their overall [wealth](#) than do uncontrollable market variables. That is, any gains from property appreciation have been historically offset by greater gains in the stock and bond markets.

"When considering buying and building wealth through equity appreciation versus renting and reinvesting in a portfolio of stocks and bonds, property appreciation does not change the results," said study co-author Ken Johnson, Ph.D., [real estate](#) economist at FAU's College of Business and co-developer of the Beracha, Hardin and Johnson Buy vs. Rent Index. "On average, renting and reinvesting wins in terms of wealth creation regardless of property appreciation, because property appreciation is highly correlated with gains in the traditional financial asset classes of stocks and bonds."

So, the old adage that those who choose not to buy a home are "throwing their money away on rent" isn't necessarily true. That statement inherently assumes that any monies that someone would have used for a down payment and/or any rent savings are spent on consumption. But what if the renter instead reinvests those monies and earns a return?

"When you assume that those monies are reinvested at a rate of return, renting, on average, wins in terms of wealth creation," Johnson said. "Of course, many renters will not reinvest those monies and will instead use them for consumer goods, which is the least desirable option in terms of building wealth."

The analysis showed that households that are likely to not reinvest buy-

rent cash differentials should mostly own rather than rent their primary residence as ownership forces them to save.

"The American Dream is alive and well but in need of revision," Johnson said. "To that end, we suggest not all but most should own rather than rent due to ownership's embedded commitment to save. Owning real estate should be sold as a strategy to create better set of risk-adjusted returns rather than create wealth alone."

Provided by Florida Atlantic University

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