

Top 5 Reasons You Should Become a Homeowner

Buying a home is a complicated process. Even finding the right home can be difficult in California's inventory-constrained market. Once you do, there is the negotiation process, contracts, inspections, appraisals, financing, and myriad other issues that pop up along the way. In many cases, your monthly mortgage payment when you do purchase a home can be more expensive than your rent, and that's without considering the upfront cost of a down payment.

Taking all of this into account, why should you invest in homeownership? First, and perhaps most important, homeownership is the one tried and true way that Americans have actually managed to generate wealth in this society. In part, this is because home prices appreciate over time—even after adjusting for inflation. Back in 1980, the typical home in California cost less than \$100,000. Today, that number is more than \$600,000.

However, price appreciation is only part of the story. The leveraged/collateralized nature of the investment is also critical. Let's face it, if you walked into your local bank branch tomorrow and asked for \$500,000 because you had a hot stock tip, the conversation probably wouldn't last very long. However, if you ask that same bank for money to invest in buying your own home, there's a much higher probability of getting that loan. And, you are only required to produce a fraction of the upfront costs yourself—in some cases as low as 3.5%. However, when it comes time to sell, the bank does not require a 96.5% split of your profits—you keep it all despite putting a much smaller amount down.

Next, your rent will continue to increase, but your mortgage payment won't. Aside from wealth creation,

locking in a fixed-rate mortgage is one of the best ways to hedge against housing inflation. Since the 1980s, rents have more than tripled nationwide. In California, the typical apartment ranges from roughly \$1,200/month for a studio to as much as \$3,000 for a 4 bedroom unit. In some coastal metros, rents are significantly higher than that. Locking in a fixed payment now can generate significant savings over the course of 30+ years.

Also, interest rates are almost as low as ever. Today, the median-priced home in California exceeds \$600,000, but rates have fallen back down to 4%. It has never been more affordable in modern history to borrow for homeownership than in the past few years. Although rates are not forecasted to rise rapidly, even a small increase to 5% will cost you significantly more over time. At 4%, the monthly mortgage payment for a median-priced home is \$2,713 including taxes and insurance. At just 5%, that monthly payment goes up by \$259 per month—costing you an additional \$93,240, over the life of the loan.

Finally, your kids will lead better lives. Not only will your future generations benefit from the wealth creation and savings generated by your decision to purchase a home, but studies have shown that even after controlling for parents' incomes, race, education levels, and other socioeconomic factors, homeownership has a positive impact on children's health, high school graduation rates, and college attendance.

Homeownership has big paybacks for the economy as well as society at large. However, you don't need to be altruistic for homeownership to make sense—you will give yourself a springboard that you and your family will continue to benefit from for generations.

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