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# Is Buying a Home Better Than Investing in a 401(k)?

By  
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(<http://twitter.com/bethbrav>)

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(<http://www.realtor.com/advice/guide/buy-home-good-investment/>)

Scale and house: ericsphotography/iStock; 401k: YinYang/iStock

It stands as the conventional wisdom of the real estate market—the mantra you’ve likely heard over and over from well-meaning friends or family, and even your pals here at realtor.com® (<http://www.realtor.com>). It goes like this: “Buying a home is the best investment you’ll ever make.”

Which sure sounds pretty awesome if you’ve just bought a home, but let’s take a big step back. Is it *true*?

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In many ways and in most cases, yes. Homeownership is a critical step to building wealth and financial security. After all, you’re no longer throwing money at a landlord who can jack up your rent to stratospheric levels, all without giving you a shred of equity. More? Owning a home is also a great way to put roots down in a neighborhood and explore your DIY hankerings while reaping the benefits. The list of advantages goes on and on.

But all that said, some experts argue that a home is actually not the ultimate “investment”—nor is it guaranteed to gush cash once you retire.

What, what?? Are we really telling you not to invest in a home? Of course not—we just want you to have a sense of perspective.

“A home is part asset and part shelter,” says **Jonathan Smoke** (<http://www.realtor.com/author/jonathansmoke/>), chief economist at realtor.com. “As an asset, it has pluses and minuses, and since it represents the single largest investment that most households make, it makes sense for consumers to understand the primary downsides and risks.”

Here’s a quick rundown. We’ll even start with the downsides:

## Cons

### **A home is a concentrated asset that ties up funds.**

Homes can be a great form of forced savings, but it’s not so easy to get to those savings. In order to tap your equity, you’ve got to refinance the house, take out a home equity line of credit, or sell the property. All of those options require a significant amount of time and often incur fees.

**Take-home lesson:** For starters, you should never put all your eggs in one basket. Experts recommend that your monthly house payments should not exceed 28% of your gross monthly income, and it’s important to have a separate savings account with at least three to six months’ worth of expenses. Another way to mitigate your risk is to plan to stay put.

“Don’t buy a home if you’re planning on leaving in three to five years,” says **Michael Foguth** (<http://foguthfinancial.com/about-us/>), founder of Foguth Financial Group in Howell, MI.

### **Upkeep is expensive.**

Smart investments make money on their own. And even in the best-case scenario—you bought your house five years ago for \$300,000 and just sold it for \$350,000 for a return of 15%!—there’s something you may be forgetting. How much money did you spend on your home over those years? For example, what about that \$20,000 kitchen renovation, or the \$10,000 you spent replacing the roof? These big-time expenses can quickly eat into your “profits,” so don’t go around bragging until you’ve considered them.

**Take-home lesson:** Whatever renovations you’ve made to your home, it’s a mistake to assume you’ll make 100% of that money back when you sell. Renovations vary wildly on their return on investment. Here’s a list of the top 10 home renovations that make the best (and worst) return on investment (<http://www.realtor.com/advice/home-improvement/heres-how-much-remodeling-pays-off/>).

### **Your emotions can get in the way.**

When it comes to investing, making rational decisions are key to long-term success. Only problem: All that cool, rational thinking becomes difficult when you’re talking about the place that you live in, where you plan to start a family or while away your golden years.

“You’ve got to be *objective* about investments, and it’s just too easy to get emotionally attached to your home,” says **George Guerin** (<http://www.guerinfinancial.com/about-us/team>), a Denver-based certified financial planner.

**Take-home lesson:** As much as you adore your home, that doesn't mean you should stay there just because of those memories, or a sense of pride you're unwilling to let go. Sometimes it makes sense to downsize, sell, or just move on and make a new home somewhere else (trust us, you will feel at home again soon enough).

## Pros

### You can lock in your housing costs.

Over the long haul, houses can help you build wealth (<http://www.realtor.com/news/how-homeownership-serves-steppingstone-wealth/>). They tend to appreciate around 1% per year after inflation, so you can't count on your home as a ticket to long-term riches.

"But you also typically won't lose money, and compared to the inflation trap alternative of renting, it is far superior because it locks in your housing costs" and over time your real costs decline, Smoke says. In the past two years alone, rents have risen (<http://www.realtor.com/news/real-estate-news/u-s-apartment-rents-leap-at-fastest-pace-since-crisis/>) an average of 4% per year. While home prices have seen greater gains than those, homeowners with a fixed-rate mortgage haven't seen any change in their out-of-pocket housing expenses.

### Forced savings is actually a *good* thing.

With mortgages available now for as little as 5% down, you can use an amortized loan to acquire an asset that you would otherwise never be able to afford. Your returns are even greater if that asset appreciates, but in the meantime you're usually building equity each month that contributes to your net worth. The longer you make loan payments, the larger your share of equity, and ultimately you can own outright an extremely valuable asset. Given many Americans' inability to build up savings (<http://www.psmag.com/business-economics/why-dont-americans-save-more-money>) in more traditional financial accounts, the forced savings of a mortgage is a valuable backstop for long-term financial goals.

### Homeownership comes with valuable tax benefits.

As long as they itemize their taxes, most homeowners can take advantage of both the property tax deduction and the mortgage-interest tax deduction, two of the most valuable tax deductions available to filers. Plus most profits from the sale of a home are tax-free (up to \$250,000 for individuals and \$500,000 for couples (<https://www.irs.gov/taxtopics/tc701.html>)) as long as you've lived in the property for at least two of the five years preceding the sale.



Beth Braverman, an award-winning journalist and content producer, covers real estate, personal finance, and careers. When she's not writing, she tries to find time between yard work and paying bills to experience the joys of being a new homeowner.

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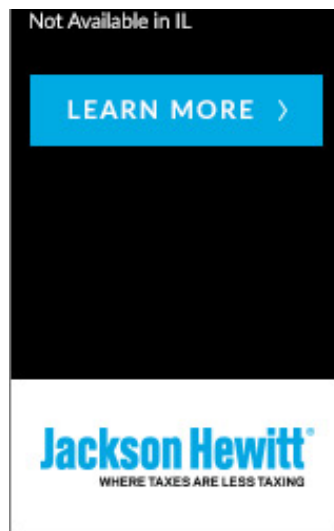


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