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REAL ESTATE

STOCKS VS. REAL ESTATE: The Winner Is?

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America is in love with real estate! 67% of American families now own their own home, a 50% increase since 1950. Well, why not? It's a bonafied tax shelter, with mortgage interest and real estate taxes a deduction against income, and liberal forbearance against payment of capital gains tax. Now add to the economics this ever present importance of having a stable home and roots in a community, it would appear that the wisdom of investing in a single family home is unassailable.

In this introductory article and those to follow, we will be examining if the case for single-family home investment is not all that it appears, can real estate as an investment class be superior to stocks and financial instruments.

Let's look at the underlying principles which impact the quality of these 2 competing investment products.

1. The potential of tax deferral, thereby allowing the compounding of untaxed appreciation.

2. The ability to leverage the investment, thereby potentially creating a higher return on invested capital.

3. The power of liquidity: The ability of the investor to quickly sell to either upgrade assets or preserve investment value in falling markets.

4. The power of fixed costs: Good investments generally don't create unexpected cash calls. Are there excessive transaction costs or timing restrictions?

5. Passive or active involvement: How much time or expertise does the investment require?

6. Volatility, does the investment maintain a predictable price range.

Most of my audience has, assuredly, already taken a side in this matter, their positions supported by personal experience. However, isn't an argument between real estate and stock market millionaires a statistical sampling which is prone to inaccuracy due to timing, the chosen market, and availability of funds?

By way of example, if you had taken $50,000.00 in 1986 to purchase $100,000.00 worth of Microsoft stock, your $15,000,000.00 net worth today would bolster your argument. Likewise, had you leveraged that same $50,000.00 in 1986 into an Art Deco Hotel on Collins Avenue in Miami, your $15,000,000 of net worth today would make you feel like the winner.

For every success story there are failure corollaries, and of course in this debate, the exceptions do not prove the rule.

Just as in past articles I have debunked such myths as that the components of the consumer price index are weighted properly and that one can't get a good 4 year college education for a total cost of $50,000.00, let's begin to examine the wealth creation myth of the single family home investment, the underpinning for the real estate value argument.

Again, looking at national averages rather than specific hot or cold markets, median home values (a statistical measure, which, unlike an average, provides that price in the middle of a range) from 1940 – 2000 has increased from $7,500.00 to $125,000.00, a sixteen-fold increase. However, during that same time period, the Dow Jones rose from 150 to 10,000, four times better than that of housing.

While to many these statistics are counter-intuitive, in the next article we will explore indepth the analysis of single family house appreciation vs. the stock market.

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