LIVING RENT-FREE

Just like the stock market, appreciation in real estate has its ups and down, but overall the trend is up. We have a limited amount of land and a rapidly increasing population. More and more people are competing for the raw materials needed to build houses, making them more expensive to build. Investing in real estate requires you learn the market, make good common sense decisions, and maintain good credit.

Your ability to pay rent is power. It allows you to buy real estate and all of the appreciation you gain from it happens without your help if you keep the property maintained. In many cases those increases exceed what the owner would be able to save in their lifetime. In their old age, many people could not afford to buy the house they bought 20 or 30 years prior.

> There are risks in owning real estate, but the risks of not owning can be far greater for many people.

With the mortgage in the following examples, we'll apply a 6% interest rate, a 90% loan, and a 30-year term. Historically speaking, the rent you can get for a dwelling in the first few years after you purchase it is a little less than the loan payments would be. Your mortgage usually starts out slightly higher than your rent would be for the same house. But rents go up and your mortgage payments don't, so generally speaking for the homeowner, their house payment equals their rent.

In 1997 you could have purchased some houses in Los Angeles as follows:

- Price $44,000.
- Down payment of $5,000

- Mortgage payments of $233.82
- Rental value about $200/month

With a 30-year fixed rate loan, your payment would stay the same as long as you never increased your loan. Your monthly payment would remain at $234 per month until your house is paid off.

An under supply of houses followed by reckless lending practices leading up to 2007, caused values to increase very fast. If you wanted to buy this same house in 2007, the numbers would have been:

- Price $300,000.
- Down payment of $30,000
- Mortgage of $1,618 per month
- Rental value approx. $1,100 /mo. to start

Very few people could have saved the $256,000 that the house had appreciated in those 10 years.

If you bought that house for an investment and you were paying attention, you could have sold when prices were high, and then waited two or three years and bought a foreclosed house for much less money. That would have put you in a position to take advantage of the rapid increases that are expected to take place once the inventory of foreclosed houses is gone.

If you bought this house to hold for the long term, the experts believe that within 5 years, home values will get back to their normal 3% per year (about the normal rate of inflation). When you retire in 20 years, the house will be free and clear of debt and worth $435,000.

With no house payments, all of your Social Security income is available for food, utilities, medicine, and entertainment. If you need more money, you can get a loan or reverse mortgage and live off the equity in your house or move into a less expensive house and sell or rent the one you have.

If you had rented the house in the last example 20 years ago instead of buying it, your rent would have started at $1,500 and ended at $2,400 per month when the owner's loan was paid off.

In this example, the $5,000 you put down increased $391,000 in value in 30 years, and saved you a lot of rent. For most people, owning a house is the safest and simplest form of investing.

Tips for home buying:

- Start learning now. It will take a lot of time to develop the judgment you need to pick a neighborhood that will stay good throughout your entire adult life.
- Study the market for at least a year before purchasing anything.
- Make sure your job (income) is reliable and don't buy a house that is too expensive.
- Do not buy when the market is over inflated. Buy when prices and interest rates are low.