

Homeownership Still Pays

Home-equity snapshots paint a bright picture.

By Robert Freedman | June 2009

Many Americans have taken a hit to their home equity over the past couple of years, and some may wonder if it's really the smartest financial decision to own a home. Good news—a recent analysis of Federal Reserve data by the NATIONAL ASSOCIATION OF REALTORS® shows the answer is yes.

In comparison with renters, home owners have much greater household wealth, says NAR's April commentary on the Fed's Survey of Consumer Finances. Owners' wealth exceeds that of renters by a factor of 50-to-1: a median of \$205,200 versus a median of \$4,200. The main wealth difference between the two is home equity, of course. No news there. But even for households who've owned their home only since 2003, home equity gains are the rule rather than the exception—and in some cases, equity gains have been significant. Households who bought five years ago in Honolulu, for instance, already average nearly \$272,000 in equity. In Northern California (San Francisco and Oakland), the comparable figure is \$105,000.

Times are tougher for home owners in a handful of economically struggling markets like Detroit and other parts of the industrial Midwest. Households in these areas who've owned their home for five years or less are facing negative equity, although typically not a lot. Hardest hit are households in Detroit who have been owners only since 2003; they're underwater by a typical \$39,000. That's significant. But in other markets where equity is negative, the numbers tend to be much smaller—\$1,000 in Indianapolis, for example.

Yet the doom and gloom ends there. In all 150 markets tracked by NAR, including hard-hit markets, households who've owned their home for 10, 15, and 20 years have uniformly enjoyed strong equity gains despite the recent downturn. In Honolulu, 20-year owners have accumulated \$485,000 in equity; in Northern California, the comparable figure is \$481,000.

Even markets in the hard-hit industrial Midwest are holding up well. In Detroit, equity for 10-year owners is more than \$10,000; that figure jumps to \$60,000 for 15-year owners and to \$78,000 for 20-year owners. In Indianapolis, the 10-, 15-, and 20-year equity gains are \$19,000, \$47,000, and \$68,000, respectively.

The data clearly show that homeownership remains the biggest store of wealth for the typical household, even when markets are buffeted by some admittedly very rocky years.

HOUSING EQUITY PERFORMANCE

How has the wealth of current owners changed as a result of homeownership? NAR created a snapshot of the equity that households would have accumulated by 2008 if they had purchased their home at the median price 5, 10, 15, and 20 years earlier. In the top markets, gains are astronomical. But even in slower markets, equity is significant over time.

