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## **If Everyone Is Renting (Or Sharing) – Why Should I Want To Own A Home?**

I definitely believe in the merits of the “sharing economy.” I’m a fan and consumer of Uber and other car sharing apps because, in part, cars are generally bad for the environment and if you buy one, a car literally begins to lose value the day you take it home.

But when it comes to how and where to live, owning a home or apartment and cultivating opportunities to purchase real estate as an investment are far usually far superior choices to renting or sharing.

Here’s Why:

### Demographics and Rents

According to US Census data, since the Great Recession of 2008, the net supply of housing has lagged behind new household formation (and housing demand) by 200,000 – 400,000 housing units every single year. The Urban Institute has projected an average annual shortfall of 300,000 homes through 2030 because of population growth and immigration, despite a now stable and growing housing construction sector.

Home ownership among all age groups is expected to further decline over the next 15 years, most dramatically among individuals aged 20-35 who today have the lowest home ownership rate of any age cohort since World War II. What this means is there will be many more people needing to rent housing: 59% of the 22 million net new households that will form between 2010 and 2030 will rent rather than buy their homes. With supply of housing falling short, rents will surge. Renters will suffer and guess who benefits? Owners and Landlords!

USA population growth is not spread evenly over the country. Certain metropolitan areas, most attractive to the country’s largest population groups (Millennials and Boomers) are growing much faster than others. Some of these markets have relatively low land and housing construction costs (like Dallas and Houston). But other markets, particularly on the coasts, have much higher land and construction costs — which means less housing will be built in these metros. and more of it will target upper income folks, so that developers can make a bigger profit. New housing appropriate for most immigrants and for younger families and individuals, who represent the largest segment of demand, will fall far short.

### Our Tax System Favors Those Who Own Their Home over Those Who Rent

Whether you agree its fair or not, our system of taxation favors those who own a primary residence and pay interest on a mortgage that enabled them to purchase. Rent we pay for a home or apartment is not deductible from our income that is taxed and other forms of interest paid on debt like credit card debt are not deductible. But if you own your home and itemize deductions on your taxes, you can exclude from income tax liability the product of your mortgage interest and your income rate. So if you pay \$12,000 per year in mortgage interest and your income tax rate is 35%, you will pay \$4,200 less in taxes than if

you didn't have a mortgage and that same \$12,000 went towards rent. And most experts agree this tax benefit to owning your home is unlikely to be eliminated.

Our tax system also provides significant advantages to owners of real estate investment properties, superior to acquirers and traders of other asset classes, like stocks. (But more on that later ...)

### Housing Increases in Value

Over the last 50 years, housing values have increased on average consistent with the growth of inflation. However, depending on location, housing supply and demand conditions and other factors we will explore, housing can increase in value much faster than the rate of inflation, particularly if we are mobile enough to move more than once every 50 years. And each month that a home owner pays down the principal owed on their home loan, they are increasing their equity in the home by that amount. Paying rent to a Landlord, just increases the value of the Landlord's property.

Investing in residential real estate by borrowing a portion of the acquisition price is making a "leveraged" investment. Leveraging someone else's money to acquire an asset like a home can be a very powerful investment strategy if that real estate increase in value. (But more on that later ...)