



Despite Pandemic, Homeowners View Housing as a Good Investment

Fannie Mae says results from its fourth quarter 2020 National Housing Survey show that consumers **continue to view homeownership as a good investment**. Respondents were asked about various investment types, including stocks, bonds, homes, and savings accounts. Seventy-five percent of respondents indicated that homes are a "safe" investment, ranking just slightly below a savings/money market account. Additionally, **73 percent of consumers felt that investing in a home has "a lot of potential."** Only 63 percent felt that way about owning stocks.

The report, written for the company's *Perspectives* blog by Mark Palim, Vice President and Deputy Chief Economist and Rachel Zimmerman, Market Research Advisor and National Housing Survey Lead, says the recent single family housing market has been especially strong. As of Q4 2020, home prices were up by double digits and existing home sales were 20 percent higher year-over-year.

The authors attribute much of housing's strength to the response of policymakers and consumers to the unique circumstances of the COVID-19 pandemic. "Thus far, the pandemic has contributed to historically low mortgage rates, higher savings for many households, and even stronger demand for homes relative to supply, as many households searched for homes with additional features, including more space, home offices, and the ability to safely 'nest' with their families. **Even in the years prior to the pandemic**, consumers reported that they believed housing, as an asset class, was a safe investment with high potential, a perception which, if it persists, will likely further support demand even as pandemic-related factors recede."

They say Americans appear to have an ingrained belief that housing investments are almost as safe as a money market or savings account, but also that they have the growth potential of a stock investment. Demographic groups shared a high, positive perception of housing as an investment, but Black and Hispanic consumers tend to have a slightly stronger belief that housing has a "a lot of potential" compared to White and Asian consumers. Meanwhile, White and Asian consumers are more likely to believe that housing is a "safe" investment compared to Black and Hispanic respondents.



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Do you think this investment ...



Showing % "Is safe" and "Has a lot of potential" among the general population, NHS Q4 2018 - 2020.

Of course, housing isn't always a "safe" investment with "a lot of potential." There can be steep declines or fluctuations in prices depending on the holding period. The timeline of when someone buys and sells their home is an important factor in the overall return and transaction costs are generally higher for housing than other assets. However, when comparing homeownership to other investments, consumers may be factoring in the rent they no longer have to pay or the tax breaks that are beneficial to some. Finally, the leverage available for a downpayment by mortgaging the bulk of a purchase is unique. A fixed-rate self-amortizing mortgage **also acts as a forced savings mechanism** as the principal balance on the loan is gradually reduced by **funds that would otherwise have gone to rent payments**.

The survey is a reminder that consumers remain focused on the long-term potential of housing. In fact, 85 percent of consumers believe homeownership leads to wealth-building and better financial health, and those numbers have been consistent over time. Research supports that view. Two studies in particular, [Homeownership and the American Dream](#) and [The Rate of Return on Everything](#) conclude that, after "imputed rent" is included in a home's financial return (i.e., the rent one would have to pay if they did not own their home), the rate of return on owning a home has historically been similar to other asset classes such as stocks.

The authors say that consumers also value homeownership for non-monetary reasons, perhaps contributing to the opinion that owning a home is an investment with "a lot of potential." Other investments or continuing to rent may not provide the "sense of privacy and security" that 90 percent of respondents say they want or the "good place to raise your family" desired by 89 percent. The reasons may vary, Palim and Zimmerman say, but the experiential aspects of owning a home **likely play a role in its high perceived value**.

The attitudes regarding the benefits and investment value of homeownership have not changed much over the years despite the Great Recession and the current pandemic. It may take a large increase in the relative returns of other asset classes, or fewer favorable financial incentives for homeownership for consumer attitudes of housing as an investment to change. For now, these longstanding beliefs in the benefits of homeownership will probably continue to provide demand-side support in the housing market.