Should You View Your House as an Investment?

Comparing housing appreciation to stock market returns over the past year

The National Association of Realtors recently announced that first-time home buyers accounted for 33% of home sales in August, which is up from 31% a year before. And you can bet that many of those first-time home buyers were told that they are making a great “investment” by purchasing a home.

In fact, it’s likely that many consider their home as a wealth-building tool, especially since it allows home buyers to not “throw money away” on rent. But should you compare the appreciation on your home to traditional investments like stocks and bonds?

Assuming you do, how has housing performed over the past year versus the stock market? The answer to that absolutely depends on where you live. And it depends on how you are invested too.

Apples to Apples

Before we make any comparison between your primary residence and the stock market, we need to make a lot of assumptions.

First, you already know that your house comes with expenses beyond just a mortgage payment. You have insurance expenses, property taxes and maintenance costs to consider too. But let’s just stick to appreciation for this exercise.

In terms of stock market performance, should one use the S&P 500, the Down Jones Industrial Average or NASDAQ? Everyone will have an opinion – the DJIA is too narrow, NASDAQ is too tech-heavy, or the S&P 500 is too large-cap. For this exercise, let’s use all three.

Stock Market Performance

It should be noted that investors cannot invest directly in an index and quoting performance for just one-year could be considered short-sighted.

But we will do it anyway to make the comparison between U.S. stock market indices and housing prices. According to Yahoo Finance:

- For the 1-year period from September 1, 2019 through August 31, 2020, the DJIA climbed from 26,198 to 28,133 – a gain of 7.4%.
- For the 1-year period from September 1, 2019 through August 31, 2020, the S&P 500 climbed from 2,909 to 3,508 – a gain of 20.5%.
- For the 1-year period from September 1, 2019 through August 31, 2020, NASDAQ climbed from 7,906 to 11,761 – a gain of 48.8%.

Location, Location, Location

On Tuesday, September 22nd, the National Association of Realtors reported that August’s national price increases marked 102 straight months of year-over-year gains.

Consider these price increases:

- In the Northeast the median price of $349,500 was a 10.4% increase from a year ago.
- In the Midwest the median price of $246,300 was a 10.7% increase from a year ago.
- In the South the median price of $269,200 was a 12.3% increase from a year ago.
- In the West the median home price of $456,100 was a 11.8% jump from a year ago.

What Does it All Mean?

While it's challenging to make blanket statements, homeowners are generally happy that prices have appreciated significantly in the past year and that we have seen 102 months of year-over-year gains.

But homeowners should also remember that home prices are like the stock market, meaning short-term real estate prices can fluctuate wildly. Remember in 2009 when median home prices dropped by 14%?

Further, the above real estate prices are median prices – meaning the prices in the middle. While it's true that in the West, the median home price saw an increase of 11.8%, that means half were less than 11.8% (less desirable) and half were more than that (more desirable). Not unlike quoting stock market returns – depending on how you are invested, you might have experienced returns greater (better investments) or less than the market (worse investments).

Past Performance is No Guarantee

One more thing that stock market investors and home buyers should never forget: Past performance is no guarantee of future results.

The increases that home-owners witnessed this past year are about triple the average annual price increases that home-owners have witnessed over longer periods of time. And the performance for the three stock market indices over the past year? Well, those are well past their average annual returns too – by a lot.

Past performance is no guarantee of future results. Duh.