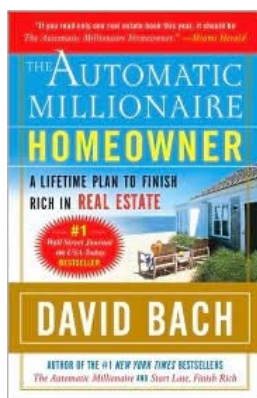


David Bach: More Good Reasons On Why Now Is The Time To Buy A House



Back in the glory days of 2005, [David Bach](#) came out with his book [The Automatic Millionaire Homeowner: A Lifetime Plan to Finish Rich in Real Estate](#). In it, he argued that owning your own home is "as close a financial no-brainer as you can get." Over the past couple years, millions of families have witnessed the risks that can come with real estate ownership, but like Mr. Bach, I remain a long-term bull (See my piece [Why Real Estate Is Still a Good Investment](#)). I had a chance to talk with him by phone about where the real estate market is, where it might be headed and why now, more than ever, is a great time to buy real estate.

WP: In your books, you argue that real estate is one of the best investments people can make. Do you still believe that that is the case, and how has the recent foreclosure crisis and housing downturn impacted that view? A lot of people are skeptical right now. Make the case for home-ownership.

Bach: If you go back and read that book, if you turn to the end of that book, you'll see all the tips about how to protect yourself in a down real estate market. If you can't afford a down payment, don't buy a house. Get a 30-year fixed rate mortgage. Real estate is all about the financing, not about the location. The problems that people have gotten into with real estate have been financing related.

The great truth about home-ownership is that it's the greatest investment you will ever make and nothing has fundamentally changed there. All the fundamental principles are in that book and it hasn't changed. When you look at the market today -- as much sense as it made to buy a home in 2005, it makes so much more sense to buy a home now. We have just gone through the biggest sale on the price of real estate in our lifetime. This is very similar to what happened in the late '80s and early '90s, except this time it's even better. People who bought in 1987 -- in most cases their home wasn't back to what they paid until 1995. But by 2000, it had doubled and in some cases tripled. I don't know where prices are headed but all I can tell you is that the fundamentals of why you buy a home have not changed: You have to live somewhere. You can rent it or you can own it. The one thing I know about renting is that ultimately, rents always go up long-term. Rents have increased an average of 4% per year over the past 50 years. You own nothing, you have no equity, and the cost of living is increasing. For that reason alone -- protection against rising rents -- buying real estate with fixed-rate mortgages makes sense.

Then the second principle is that homeownership is subsidized by the government as a tax deduction. Then the asset standpoint. The average person's net worth is 65% to 75% in their home. Real estate has never been a short-term game, it's always been a long-term investment. I think home-ownership makes more sense now than it has in a long time. We have record low interest rates. There's a ton of inventory, and that's a buying opportunity: more people selling than buying. People should be going and making multiple offers on properties. Don't be afraid to lowball. People are getting 30% off the asking price. It won't be like this in two years, and mortgage rates will be higher, I think.

WP: But people are scared. Who wants to go buy a house when one neighbor already lost his house and the other is underwater and lost his whole down payment?

Bach: I know people are scared but when people are scared in masses like they are, it always creates the best opportunities. I don't know that we'll get an opportunity like this for another decade or two. Banks are lending to first-time home buyers -- the banks are doing smarter loans, which is good. That will strengthen the real estate markets long-term.

About 50% of the homes that are being foreclosed on are being foreclosed on because people are underwater, not because they can't afford the payments -- which I think is stupid and short-term.

WP: Explain that a little bit. I've heard the argument that if you're underwater on a house and can rent something similar for less money, walking away from it can actually make sense.

Bach: That's short-term and stupid. You'll wreck your credit and you won't be able to buy a house again for a long time. I bought a home in Tribeca back in 2003. It was a condo development. I bought the first unit (about 12 units in the building). The first few units sold in the first two weeks and then the market just stopped. By the time they sold the last three or four units, they had dropped the price of the units by 25% or 30% and I was bummed. I figured I had lost on paper all of my equity -- and I had put down \$600k. If I sell tomorrow, I lost everything. Four years later, I sold it and sold it for like \$3.65 million -- and made a \$1.5 million profit, after commissions and taxes! But in the sense that I was upside down on the house,

it would have been "logical" to walk away from it right after I bought it. It would have cost me \$1.5 million, but it would have made perfect sense. It's stupid. If you're living in a home and can afford the payments, don't let it go into foreclosure just because it dropped in value.

WP: Interesting point. What about the argument from people who say "Instead of buying a home, rent one and save the down payment!"

Bach: The low interest rates on money market accounts are so low right now that that's actually an additional argument for buying a home. The old "Rent and put the down payment in a savings account and let it grow" argument is not an argument that works right now because you can't get higher than 1% in most cases. It made more sense when you could have 5.5% APY, but now? The interest rates right now heavily favor borrowing money and putting it in assets vs. saving in a bank account.

WP: Speaking of interest rates, what do you think of real estate as an investment for an inflation hedge?

Bach: If we have inflation, housing will go up in price a lot. It has to. Housing won't get cheaper if we get inflation. You can take the opposite position that if rates go up, fewer people will be able to buy. But I can't think of a better inflation hedge than real estate. I'd rather own real estate than or gold or silver.

I just heard someone say "If you have \$250k saved, you can't get FDIC insurance. If you have extra money and you put it in real estate and you pay cash, you can see it. You can go over to the house. You know where it is, it doesn't disappear. You don't wake up one morning and have your home go bankrupt because some CEO lied about earnings. If I only had one asset class to choose, I'd choose real estate over everything. If you own real estate debt free, it doesn't get much better than that.

WP: If I'm going to buy a house, how long should I be planning to stay in it for?

Bach: I think three years, especially in the market. I'm not sure where the market will be. It might not be higher and it could be lower. I know some people say five years, but really: Who can say where they will be in five years with any certainty? I think three years is a good minimum to use -- and it can be even less if you get a good deal and it's something you could keep and rent out.

WP: I wanted to ask you about that, actually. I'm a very, very small time real estate investor -- I own two condominiums in the town where I go to college, one of which I live in -- and my philosophy with buying a home is that people should evaluate is it as though it were an investment property that they were buying for income.

Bach: I think that logic makes a lot of sense. A few years ago you couldn't have done that, but now you can.

And that, in a nutshell, is why I think people who don't own homes now should seriously consider entering the market -- provided that they have good credit, enough in savings for a reasonable down payment, and are planning to stay where they are for the next few years. The combination of falling property values and tanking interest rates has put the cost of renting vs. cost of owning equation back at a level we haven't seen in a long time. A [recent Associated Press analysis](#) of 45 metro areas found that the difference between the median rent and the median mortgage payment has fallen by a stunning \$556 over the past three years: from \$777 to \$221. That's 556 really good reasons per month to call a real estate agent.

To hear more of David Bach's case for homeownership, check out his series of [Smart Homeowners YouTube videos](#). And, in case you haven't already, pick up a copy of his book [Fight For Your Money: How to Stop Getting Ripped Off and Save a Fortune](#).

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