

An illustration on the left side of the page shows a yellow house with a red roof and a woman in a white dress holding a rope. The house is tilted, and the woman is looking up at it. The background is a light, textured surface.

# Rental Woes

Owning a home is best investment, new book explains

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Renting a home is definitely not the route to wealth. In fact, statistics from the Federal Reserve indicate it's a good way to stay broke. According to data collected in 2003, the average American renter's net worth amounted to less than \$5,000, while homeowners were worth almost \$172,000 — making them 34 times richer.

That's but one of the many fun facts financial adviser and author David Bach offers up in his upcoming book, "The Automatic Millionaire Homeowner." When you add up all the evidence, Bach says, homeownership is as close to a financial no-brainer as you can get.

"The argument is that it's cheaper to rent. That's the whole argument, and it's simply not true," Bach said. "As long as you're alive you have to live somewhere. The question is, will you pay someone else to live there, and make that person rich, or will you pay yourself to live there and make yourself rich?"

To drive home the point, Bach offers the following example: Suppose you rent a house for \$1,500 a month, and you stay there for 30 years. If the landlord raises the rent 5 percent a year, you'll wind up paying almost \$1.2 million in rent and have absolutely nothing to show for it.

If you bought the house for \$200,000, however, your monthly costs including mortgage, taxes and maintenance would add up to about the same as your rent but wouldn't rise at the same rate. Best of all, the house likely will increase in value. If it rose 6 percent annually (just less than the national average), your home would be worth \$1.1 million in 30 years.

While owing lots of money on a mortgage may seem like a scary burden, it's important to remember that the payments you make each month will actually serve to increase your net worth. By decreasing your loan balance, you're building equity for yourself. The longer you own your home, the more equity you build and the richer you get, Bach says.

Another incentive to buy is the simple fact that there are no tax breaks for renting. Among the perks enjoyed by homeowners is a little thing called the mortgage-interest deduction, which allows you to deduct from your taxable income the interest charges on the first \$1