

Family Money: A Home as Inflation Guard

By RICHARD PHALON

THERE IS fresh evidence that buying a home is one of the best investments around. Over the long haul, owning a piece of residential real estate has proved to be a better hedge against inflation than United States Government bonds, Treasury bills, or common stocks.

Common stocks, in fact, according to a study done by Eugene F. Fama and G. William Schwert, have been hammered down in price to the point where they have provided no protection at all against the rising cost of living.

"Only private residential real estate," the two men conclude in the current issue of the Journal of Financial Economics, "is a complete hedge against both expected and unexpected inflation."

Mr. Fama is the Theodore O. Yntema Professor of Finance at the University of Chicago's Graduate School of Business. Mr. Schwert is an assistant professor of finance at the University of Rochester's Graduate School of Management.

The academics' conclusion, based on regression analysis and other tools of the statistical trade, is a factor that has to be taken into consideration by anyone faced with the question of whether to buy or rent.

As often as not, of course, the answer is framed in terms of personal preference rather than hard numbers. Some people are apartment dwellers because they just don't like to fuss with the leaky faucets or balky furnaces that are the lot of most homeowners.

At some point in the decision, though, investment values have to come into play. Mainly because of the rate at which land and construction costs have been rising, the price of a new home has all but torn through the roof—from an average of about \$23,400 in 1970 to almost \$50,000 last year. The price of older homes has

climbed pretty much in tandem with that gain.

The likelihood is for a continuation of that long-term trend, though not necessarily at the same rate. A confirmed apartment dweller might prefer to put his or her cash to work in some form of investment—Government bonds, Treasury bills or even a savings account.

The cash working for the apartment dweller would be the equivalent of a down payment, plus such closing costs as prepa¹ taxes, insurance premiums and loan discounts. On a \$50,000 home, all of those costs would total at least \$6,000.

At 6 percent interest, the money would double in a dozen years. The apartment dweller would not be as far ahead as the homeowner, but the Fama-Schwert study suggests that the spread would not be insupportably wide if the cash had been put in Government securities. They are highly liquid investments that can be shifted around to take advantage of changes

in rates, and tend to run more or less abreast of inflation. One of the advantages of renting is financial flexibility.

The Fama-Schwert study doesn't go into the tax advantages of home (or co-op or condominium) ownership. Mortgage interest payments and real estate taxes can be written off against Federal and most state and local income taxes. The effect of those write-offs is to lower the homeowner's cost of shelter.

The tax savings help make owning significantly cheaper than renting over a long period of time. The longer you own, the cheaper the comparison becomes.

That's because interest costs decline with the equity buildup in the house. The tax shelter remains, though, because the fall in interest charges tends to be offset by rising real estate taxes.

For short periods, though—up to three years or so—the costs of buying and selling a house (closing costs, commissions and the like) can chew up even runaway resale values. Thus,

executives who move around a lot may be better off renting than buying.

One of the big pluses of owning is the forced saving of monthly mortgage payments. Those savings are comparatively small in the early years, but build rapidly in the later years. It takes a decade, for example, to pare a 30-year loan of \$22,300 at 7.5 percent down to \$19,400. The balance drops to \$13,150 after 20 years and all of that would be retired in the last 10 years of the mortgage.

The equity build-up, plus the lift of rising prices, is the big reason why the old homestead proved to be a better buy than the stock market, but there are situations in which renting is the

It's better to rent when:

• You want to settle into and learn more about a community before buying.

• You're not sure whether salary increases will come along quickly enough to enable you to afford as much house as you would like to buy.

• You're not sure where you want to live or how much house you need.

Calendar of Events: A Fair, Lectures, a Workshop

Park Avenue Antiques Fair, Seventh Regiment Armory, 67th Street and Park Avenue.

The Tennis Hall of Fame will be sharing space at the Park Avenue Antiques Fair with about 100 exhibitors starting Wednesday and continuing through March 12 at the Seventh Regiment Armory.

A wide range of antiques will be displayed—glass, porcelain, furniture, silver, books, paintings and prints representing American, European and Eastern craftsmanship. For the tennis fan, the Hall of Fame exhibition will include tennis costumes from the 1870's to the present as well as an original racquet press and other antique racquets. Guest lecturers will speak each day at 2:30 P.M.

The show is open from 12:30 to 9:30 P.M. Wednesday through Saturday; noon to 6 P.M. on Sunday. Admission is \$3.50.

Spring Courses, Institute for Architecture and Urban Studies, 8 West 40th Street.

A series of lectures and seminars called "Open Plan," exploring contemporary, innovative ideas in architecture, the city, the arts and design, will be given at the institute from Monday through May 11.

The series will be divided into four categories: the Anglo-American Suburb (Monday), the Modern House (Tuesday), Style and Culture Between the Wars (Wednesday) and the Interior Landscape (Thursday). The lecture series will be held from 6:30 to 8 P.M.

(\$60): the hour-long seminar will follow at 8 P.M. (\$45).

For registration information, call 398-9474.

Fix-It Workshop, Abraham & Straus, 420 Fulton Street, Brooklyn.

As part of its Women's Series held each Sunday, A&S will conduct a three-hour workshop this Sunday to teach women how to make simple electrical repairs and fix leaky faucets.

Dorothy Carbo, author of "The Fix-It Guide for Women," will instruct the group. The session runs from noon to 3 P.M. and costs \$5, including lunch.

Directions by subway: Take the No. 2 or No. 3 train on the Seventh Avenue IRT line to Hoyt Street. Exit leads into the store's basement.