

# REAL ESTATE VS. MUTUAL FUNDS

**"OVER THE PAST 10 YEARS, REAL ESTATE BEAT THE STOCK MARKET"**



## Compliments of

### WHY INVESTMENT REAL ESTATE?

Why invest in real estate? The first reason is fairly obvious. Most financial planners recommend that investors accumulate a diversified investment portfolio that consists of some stocks, bonds, and assets such as real estate. Another reason for holding real property for investment is that sometimes real estate can outperform the stock market.

### A TEN-YEAR COMPARISON

According to the National Association of Realtors, the median home resale price in 1991 was \$97,100. With a 20% down payment of \$19,420 and a \$77,680 mortgage, an investor could have purchased the median resale home for \$97,100.

At the end of 2001, that median price of that home was \$147,500. Through only price appreciation, an investor would have gained \$69,820. [Note: This increase in equity does not include the equity growth through the pay-down of the mortgage over the same period. Assuming a 30-year loan at 8%, if this was included, they would have an additional \$8,917 in equity growth.]

Assume an investor put \$19,420 into the Vanguard 500 Index fund over the same time period. Over the same ten-year time period, it would have grown to \$60,593, after paying taxes on the capital gains and dividends.

Since the Vanguard 500 Index Fund generally did better than most other managed mutual funds over the past ten years, it's fair to assume that property owners holding real estate for investment outperformed investors holding stocks and bonds in the same time period.



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Template # 61

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### REAL ESTATE VS. A MUTUAL FUND

	<u>Real Estate</u>	<u>Index Fund</u>
1991 Equity	\$19, 420	\$19, 420
2001 Equity	\$69, 820	\$60, 593
10 Year Annual Return	13.7%	12.1%
5 Year Annual Return	18.8%	10.1%
3 Year Annual Return	20.5%	(1.5%)

### THE POWER OF TAX DEFERRAL

The comparison above only looks at the *appreciation* of real estate held for ten years compared to an Index Mutual Fund held for the same time. The benefits of owning investment real estate become even more dramatic after calculating the costs of sale. If the index fund is sold, the investor must recognize capital gain taxes; however, the investor who exchanges their investment property will have all their equity available for purchasing more real estate. This increase in purchasing power is another tremendous advantage in owning real estate held for investment as an important asset in a diversified investment portfolio.