

Is it a Dream Home or Financial Asset?

For most households, the homes we buy meet a variety of needs. They fulfill the fundamental need of providing shelter. They also represent a sizable financial asset. Finally, they come to signify an emotional element of life that encompasses both social aspects of life as well as our personal preferences, desires, and dreams. Our homes become an extension of how we want to be viewed by our neighbors and peers, and how we use a home to satisfy our own self-esteem.

As a shelter, a home is simply what it is – a place that protects us from the outdoor elements and a space to keep the collection of stuff we accumulate. But when considering the other two characteristics of what a home involves, there is a balancing act between being realistic about a home as an asset and viewing a property as our “Dream Home” with its assortment of emotional ties.

What this comes down to is determining how much you are willing to invest in creating a “dream home” environment that may not be financially recoverable. I want to stress this, because the reality is that often money spent on meeting our personal wants and desires will not be coming back to us when the day comes to sell a property. The examples of items that can fall into this bucket of unrecoverable money are numerous and diverse.

As a starting point, look to the exterior of a home and focus on such features as elaborate landscaping, paver drives/walks, roofing materials, stone accents and even a swimming pool. These are among the many desirable upgrades that can be incorporated into a home. However, you need to ask will the monies spent correspondingly increase the resale value of the home. In most cases upgrades that are not inherently a benefit to the fundamentals of a home will not increase the resale price in direct relationship to the dollars spent on the improvement. A plain concrete driveway functions equally as well as a paver finish driveway.

Moving to the interior of a home we see the same scenario with purchase of ultra high-end appliances, costly flooring selections, exotic counters, and window treatments. Will basic granite counters result in such a lower sale price that justifies the substantial added costs of installing exotic granite/Quartz counters. The extra \$5000 spent on granite from some mountainside in Bolivia is not likely to increase the bottom-line dollars in your pocket at the time of sale commensurate with the greater price.

So where is the line in the sand? That question can only be answered by how driven you are to have the more costly products and the degree you can accept that the dollars spent on luxury features are for ME as the CURRENT OWNER and not a FUTURE OWNER. You must objectively understand that our vision of a home may not be in synch with the preferences of the next owner. The fact is many homebuyers dive into changes impacting everything from décor colors to energy-efficiency soon after the closing date on the home purchased.

If you can afford the luxury of getting what you want, enjoy it! Just don't fool yourself into thinking it is an “investment” in a real estate asset.

On the positive side, a portion of the money spent may be recoverable and upgrades will generally increase the desirability of a home in the marketplace. The increased desirability of the home will often translate into a shorter sale time.

A related point to consider is money spent on home maintenance. Unlike pure luxury additions, the dollars spent on proper maintenance is important to protect the value of a home as an asset. It is the old story that unaddressed repairs will become increasingly problematic and more costly to address later. Homes that are not perceived as being well maintained will assuredly result in lower resale prices. It is best to view maintenance bills as a necessary evil that should not be avoided.

At the foundation of the American concept of “home” is the God given right to create a private world we love and cherish. Whether it be a mansion on 5 acres or a modest house on the block, we find ourselves working to enhance the appearance and comfort of our homes.

The key is spending only the amounts that are financially sound with no false hope of expecting full payback for funds expended on luxury additions and upgraded features.