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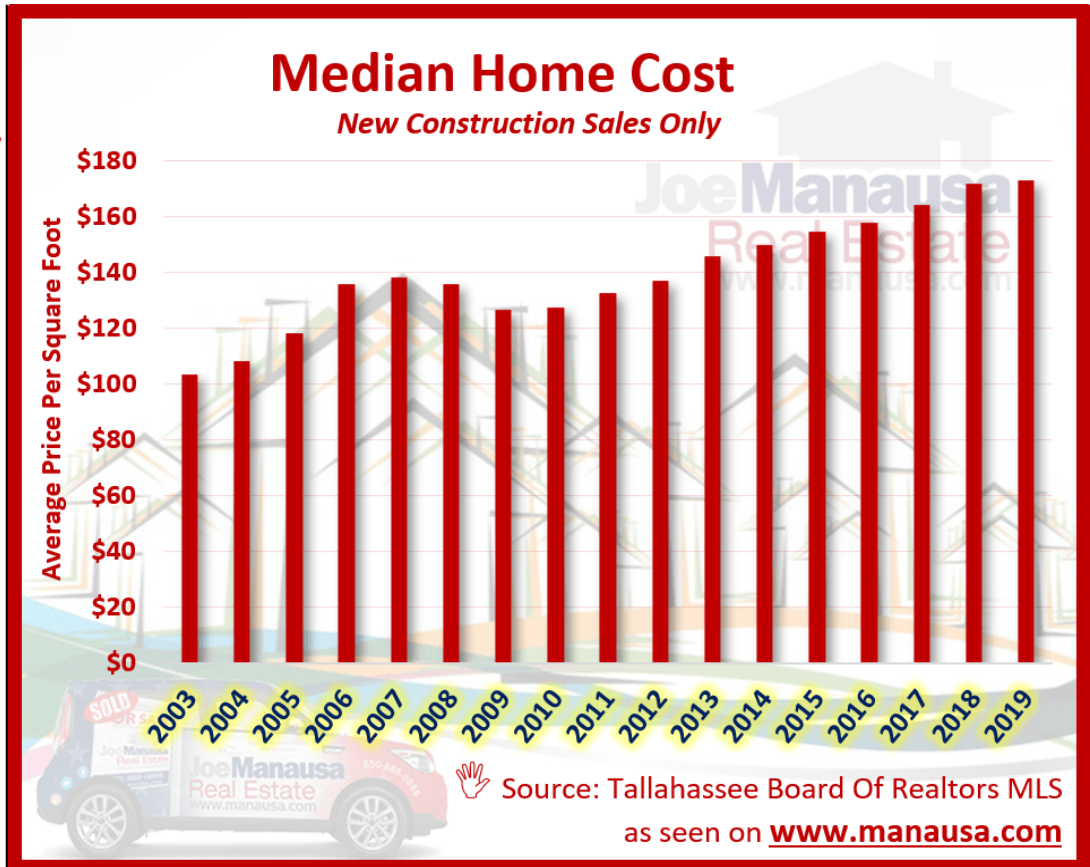
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Median Cost Of New Construction Soars



Why should you own a home? Just look at the rising cost of new construction for a hint.

In 2003, the median cost of a new home was \$103 per square foot, 16 years later, the cost is \$173/sqft, an annual increase of 3.27% per year.

A simplified way to think about it this: Let's assume resale homes appreciate at this same rate (the rate since 1991 is very close to this). Since most buyers finance their home, what kind of return do they get if they hold long-term?

Let's say you buy a \$300K home today and you put 5% down.

Assuming 3% in closing costs, you'll invest \$24K to buy the home that is going to appreciate at 3.27% (\$9,821 the first year and growing) per year. When we do the division, we see first year appreciation alone is 41%.

But holding long-term compounds your return. The final year of ownership, the home appreciates \$16,443 (69% cash on cash return) with a future value of \$519K which is about \$340K in equity from the initial \$24K investment (annual growth of 18%). If you want to buy a new home when you sell, it will likely cost around \$290 per square foot!