



CIO recommends complementing real estate investments with liquid, diversified portfolios of stocks and bonds, which can help investors weather volatile markets and grow wealth faster than inflation. (ddp)

# Is real estate the best way to build wealth?

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**An illiquid, indivisible bulk asset with high transaction costs, residential real estate presents complications for investors whose focus is wealth-accumulation. But that doesn't mean you should discount housing as a key part of your investment story.**

After a year that saw diverging fortunes for the housing and equities markets, Americans have been looking to real estate as their ticket to easy street. That's at least according to a [CNBC: Your Money/Momentive poll](#) taken last month.

Of those surveyed, 23% chose real estate investment over stock-picking (16%), starting a business (15%) and pursuing a side hustle (12%) as the best way to build personal wealth. With US home prices up 8.6% in the 12 months ending in November, according to [data from CoreLogic](#), and the S&P 500 closing down 19.4% in 2022, the sentiment is not without its logic.

But before you cash in your 401(k) for a spec home on the beach, the UBS Chief Investment Office (CIO) warns that popular opinion may be missing some key facts—and caveats—about real estate as a vehicle for fortune-building.

## Buyer be warned

"It's a good idea to consider the opportunity cost of buying a larger home instead of putting more of your savings in traditional investments," says UBS Investment Strategist Justin Waring. "Residential real estate is unlikely to offer a higher return than a well-diversified portfolio of stocks, bonds, and alternative investments."

Waring points to the [S&P/Case-Shiller US National Home Price Index](#), which since 1987 has increased about 4.4% a year. Not bad, but when you put it next to the 8.2% an average 60/40 stock/bond portfolio would have earned you—or even

the 4.9% for a 100% bond portfolio—the real estate market looks a lot less exciting—and that’s before you consider expenses including property taxes, maintenance, broker fees, and insurance.

[The strongest wealth-building strategies](#) focus on accumulating liquid assets to increase diversification. Real estate’s status as an illiquid bulk holding with high transaction costs makes a long investment horizon necessary to earn any return at all. These characteristics also limit investor flexibility.

### **“You can’t live in a bond portfolio.”**

But that doesn’t mean you should discount housing as a key part of your investment story. “When it comes to your primary residence,” says Waring, “it’s not appropriate to compare housing to pure investments. After all, you live in your home, and you can’t live in a bond portfolio.”

Owning a home can help [protect you from shelter-related inflation](#), and [can provide you with borrowing capacity through mortgages and home equity](#). The family home can also be an important vehicle for passing on wealth to later generations, and a larger house can create room for a more comfortable lifestyle and can even help head off broker fees and moving costs—as well as nonfinancial difficulties—down the line.

We recommend [complementing real estate investments with liquid, diversified portfolios of stocks and bonds](#), which can help investors weather volatile markets and grow wealth faster than inflation. Postponing debt amortization, especially with a fixed-rate mortgage, can also help mitigate interest rate risk and free up surplus cash for investments whose expected returns exceed your mortgage rates.

There is no one-size-fits-all approach to managing wealth. Your financial advisor can help you find the right balance, pairing a home that suits your lifestyle with a wealth-building investment portfolio that helps you to achieve financial freedom.

**Main contributor:** Joshua Kleinberg

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