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Home is where the wealth is, says author

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David Bach is high on home ownership as a way to finish rich. No wonder.

The young, best-selling author reveals in his latest rah-rah, how-to guide that he put down $500,000 (all figures U.S.) to buy a $2 million loft in New York in 2002. By 2005, it was easily worth $3 million.

Now, he said yesterday, it might be closer to $3.5 million. So, even if the bubble bursts, he figures he'll still be ahead. His plan is to rent the loft and move into a new townhouse.

With tales like this to carry readers through the *The Automatic Millionaire Homeowner*, book sales have been brisk — more than a million sales since its launch March 7, including about 20 per cent in Canada.

His timing was good for thoroughly distinct Canadian and American versions of a light book on home buying. Optimism is easier to sell after prices have risen sharply.

Bach insists throughout that he's not selling a get-rich-quick scheme. But he has a sly way of exalting the peaks of real estate investment before exploring the valleys.

"Nothing you ever do in your lifetime is likely to make you as much money as buying a home and living in it," he enthuses on page 5. Not until page 199 does he warn that some experts are predicting a real estate meltdown. "It's getting scary."

Bach's model homebuyers are John and Lucy Martin, who parlayed the equity from their first $30,000 home in California into $90,000 of annual retirement income from that home and a four-unit apartment building. They reside in a home in the desert.

It just took them about 37 years of scrimping, shrewd timing, guts and a faster rate of price appreciation than most Canadians would have enjoyed away from the waterfront or a city core.

The Martins' starter home is now worth $1 million, implying an average annual appreciation of 10 per cent, which is more than Toronto has seen in all but a few years in the same period.

Bank of Nova Scotia economist Adrienne Warren says the average annual increase in home prices in Canada has been about 2 per cent more than inflation over several decades.

At that rate, average home price inflation would have been about 6.8 per cent since 1969. Areas of high population growth due to immigration would have seen higher rates of growth, she says.

Warren's bank has employed Bach as a consultant to do educational seminars for clients over the past two years, and has purchased many of his finish-rich books for them.

She says she expects gains in Toronto and Ontario home prices to slow to about 2 per cent a year over the next few years, but not to fall as they did in the recessions of the early 1980s and early 1990s.

Various economists agree the Bank of Canada is likely to hold rates steady for a while, after yesterday announcing its seventh quarter-percentage-point increase in its overnight lending rate.

Bach concedes that house prices do rise and fall, and that some times are better than others to buy for maximum gain. But he says "in the real world, very few people pull that off successfully. It's very difficult to time the market."

His advice to eligible homebuyers is to get into the market as soon as they can. "Don't pay $500,000 in rent (over a lifetime) and have nothing to show for it."

He urges would-be buyers to scrub up their credit rating, give up their café latte, set up an automatic withdrawal plan to save a down payment, then visit a friendly banker or mortgage broker to get pre-approved for a mortgage.

To bubble-proof themselves, he urges buyers not to over-reach with debt. Look father afield for a cheaper home. Size up the market carefully. Lock in a mortgage rate for five to seven years. Don't bet on making a quick-flip profit on the sale of a condominium. Make an extra couple of mortgage payments a year to cut down on total interest expense.

Finally, he writes: "Know that, in most cases, time cures all."

Bach goes overboard with his salesmanship sometimes. On the one hand, he says Canadians have a "ton of equity" after the "huge run-up" in home prices since the mid-1990s. Then he points out the average home equity is only $40,000 to $85,000.

You cannot buy much retirement income with either sum.

He refers to home equity gains as though they were pure profit, when in fact they include a lot of payments and would be offset by significant expenses at the time of purchase and sale.

Yet his educational sections are useful and generally true in the Canadian environment. His enthusiasm is infectious in a good way, and I would buy copies of his book for my sons.

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