Rinehart Wealth Management
Greater Trust

Is now the right time to consider a real estate purchase?

As a result of the 2008 recession and the double dip in the housing market, there are some consumers who assume that the perfect opportunity has developed for purchasing either a second home, a rental property, or even helping their 20-something son or daughter acquire their first home. At first glance, the situation may seem very straightforward. Over the last two years we have witnessed an increase in monthly rent prices as occupancy levels have soared. Along with historically low mortgage rates, housing prices are at all-time lows, which have created opportunities for short sales and foreclosures. Although these factors appear to create a once-in-a-lifetime opportunity, you should first conduct a thorough evaluation to determine whether purchasing is right for you.

Whether you are a young adult just entering the workforce and are looking for your first home, or a 50-something who is considering a mountain or beach vacation home, the factors to take into consideration are actually very similar. First, ponder the following question, “Am I truly prepared to take on the responsibility associated with a house purchase?” This is a loaded question as it delves into both the ancillary costs associated with ownership, as well as the additional personal responsibilities that home ownership places on your shoulders.

Although it is relatively easy to compare a monthly rent payment to a mortgage payment, there are many other financial implications which need to be discussed and itemized when determining the total cost of ownership. Below are some key considerations that should be carefully examined prior to a decision:

- Real estate taxes on the property will be due annually, so it’s critical to consider how these costs will factor in to your ongoing expenses.
- Condominium or homeowner’s association fees will be due and can increase annually. At the same time you need to look at whether there can be additional assessments charged for common property upkeep or more substantial capital improvements.
- A first time homebuyer needs to consider if they will qualify for a mortgage on their own credit rating or if they will need a cosigner for a loan. Given the tightened mortgage eligibility requirements and the limited length of time that a young adult has been accumulating credit, young people should be especially aware of this. Because it is not necessarily a wise choice for a parent to co-sign on a mortgage, each situation should be considered carefully on a case-by-case basis.
- It is preferable to put 20% down at closing, as well as pay closing costs outright. If you put down less than 20%, you will also have to pay private mortgage insurance (PMI) which is added to the mortgage payment on a monthly basis.

- Homeowner's insurance costs far outweigh the costs of renters insurance, which can be a big adjustment for first-time homeowners.
- Homeowner's insurance on beach properties can be double or triple what you pay for your primary residence, due to the additional protection required for wind, water and earthquake coverage.
- Although we are witnessing historically low mortgage rates, you need to remember that mortgages for second homes and rental properties tend to be higher and because of tightened eligibility requirements, you may have a more difficult time qualifying if you already have a primary mortgage.
- Getting a house up to current building codes can be extremely costly. It is essential that you spend the money to have a full inspection of the property prior to closing. This will help to determine whether the home is fundamentally sound, including the foundation, plumbing, roof, electrical and the basic structure. You should also bear in mind that many inspectors are seeing increased business from realtors and want to keep them happy: making it essential that you know the reputation and qualifications of the people who are giving you quotes, as well as understanding if the quoted price includes bringing the home up to current building code specifications.
- An emergency fund is critical to have in place once you own a home or condo because there will always be unforeseen expenses.

Once all these monetary issues have been given adequate consideration and you have tabulated the total anticipated expenses, there are additional issues to ponder before making the leap into ownership. It is important to objectively assess both your employment situation and your desired lifestyle to see if this is the appropriate time to own a home. These concerns exist for any potential homeowner, but are especially acute for the young adults in their 20's, which will have additional questions to ask themselves before taking the plunge. Some of the factors to take into consideration and discuss are the following:

- Examine the likelihood that you will remain in the location where you purchase a home for half a decade. Given the double dip of the recent housing recession, the forecast for price recovery is at least five years, so you may need to stick with your property for at least that long in order to avoid a loss on the investment.
- How stable is your current job? Is your salary going to remain steady in the face of economic uncertainty? How likely is it that you could be transferred or relocated to a different city? Are there sufficient growth opportunities to keep you in this job for several more years?
- Have you lived in the area long enough to have a good handle on desirable locations in the city? Have you done your homework on future expansion plans in the area? Will there be resale possibilities with this home if a move is in your future?
- Lastly, the time commitment involved in ownership needs to be carefully considered as well. This might include yard maintenance or home improvement projects, as well as taking time off work to wait for repairmen to arrive.

While the number of considerations may seem overwhelming, you need to remember that taking the plunge into home ownership is one of the biggest decisions you will make in your life. Owning your own home gives you roots in a community and hopefully will be an appreciating asset over the years you own it. However, real estate prices alone should not dictate such an important decision. As stated at the outset, purchasing instead of renting can be the right choice for some 20-somethings, but it is not for everyone. Similarly, renting a mountain cabin for a few months a year may be a much more fiscally sound decision than taking the plunge into owning a vacation home. Do not underestimate the freedom in being able to leave your vacation rental, return the key and not think about it again until next year.

Careful consideration should be given to all the costs involved in ownership while being realistic about your current employment situation and lifestyle desires. Don't let the appeal of home ownership cloud your good judgment. Your financial advisor can assist you in evaluating such a purchase in light of all your other financial goals and circumstances. Do your homework and carefully consider if purchasing is the right choice for you.

Regards,

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