

# Buying a home in today's market:

## *Why homeownership is still a smart long-term decision*

by David Bach



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***Homeownership is the smartest investment you will ever make during your lifetime.***

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Is buying a house a good idea? Why, after the turmoil of the last few years in the housing market, should anyone buy property? These are great questions, and you may be inclined to think that this just isn't a good time to buy real estate.

But the power of real estate hasn't changed. In fact, you need to own property if you're serious about finishing rich. And today is an unprecedented time to get into real estate. Before you write another rent check, or write off the opportunity to buy another property, consider the following eight things you need to know when it comes to homeownership.

**1 Homeownership is a solid long-term investment** In fact, it is still one of the best long-term investments you can make. That's because homeownership has proven to be a critical contributor of financial well-being for American families for decades. While residential real estate did especially well between 1998 and 2005, it's not just that period. Instead, housing has been making consistently solid gains since at least the 1950s. It's simple — long-term homeownership generates wealth, and paying rent does not.

**2 Rents will rise. Your loan payment doesn't have to.** Wouldn't it be great to lock in the price you pay for, say, gasoline or groceries or college tuition for the next 30 years? You can't do that with your rent payment — but you can with your loan payment on your home.

Consider two similar homes in the same neighborhood — one's for rent, the other's for sale. If you rent, you can be sure that ten or twenty years from now, the monthly rent will be higher, and probably a lot higher. But if you purchase and finance the home with a 30-year fixed-rate mortgage, your principal and interest payment on that mortgage won't change for the next 30 years, no matter what happens to the economy. Yes, the associated taxes, insurance and maintenance costs on your home will undoubtedly rise, but the biggest component of your monthly housing payment

will remain at today's level. That's a huge long-term advantage (especially at today's low mortgage rates) — and the key way households build wealth through homeownership.

**3 The IRS gives big advantages to homeowners.** The federal government provides tax breaks for homeowners — from allowing you to deduct your mortgage interest, mortgage insurance and property taxes to exempting capital gains taxes on your primary residence, within limits (be sure to check with a tax professional to see how these may apply to you). In some cases, you may find that your after-tax mortgage payment is comparable to, and perhaps lower than, your current rent payment!

**4 Historically, home prices have risen.** Prices on homes sold during the past year fell 3.7%, according to government statistics. On a national basis, home prices have fallen a total of 19.5% since its peak in early 2007, and declines over the short-term horizon will likely continue as we work our way through a high foreclosure rate and high unemployment in 2012. But this downturn shouldn't obscure the terrific record residential real estate has built up over the years. Since 1991, when this particular data series began, we had sixteen years of consecutive quarters of year-over-year growth before the string was broken at the end of 2007. All told, from 1991 to September 2011, through recessions and expansions, the average annual appreciation rate for the typical home was 3.0%. If you plan to remain in your home for several years, history is on your side.

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**5** **What the market is doing nationally is irrelevant to you.** The media likes to refer to a “nationwide housing slump.” But remember that real estate isn't national, it's local! The only market you need to be concerned about is your local market.

So don't draw conclusions from the national numbers or figures from outside your area. The housing market in neither Carson City, NV (prices down 15.4% in the past year) nor Elmira, NY (prices up 6.1%) gives you the story on your local market. Instead, contact a local REALTOR® and get the facts on your local neighborhoods.

**Buying opportunities have improved.**

In most of the country, the number of homes on the market has risen steadily, making this largely a buyers' market. Sellers may

**6** be more willing to make concessions on price or even pay part of the closing costs. With the decline in home prices noted above and the historically low mortgage rates, homeownership has become the most attainable it's been in years.

**Don't try to time the market.** The ability to buy a home cheaply when the market is at its bottom is much more about luck than skill for most homebuyers. Unless you're a seasoned real estate

**7** investor, I think you'll waste a lot of time on the sidelines waiting for the "perfect time" to buy. Instead of trying to "time the market," a better plan is "time in the market." Knowing you can make your mortgage payments and that you'll be in the home for at least five years will help you ride out difficult markets, like the one we're currently in.

**8** **Smart home financing options are still available.** There's a wide array of mortgage products out there, filling various needs for borrowers in certain situations. Be sure you understand what you're getting. Will the rate change? If so, how soon? How high could it go? Can you handle bigger monthly mortgage payments? Are you paying down the loan's outstanding balance?

These are just some of the questions you need to consider. The mortgage that's right for you depends on your situation and your preferences, and some financing options available to you may not fit with your financial goals. That's why it's critical to work with a lender who takes the time to understand your financial circumstances and preferences, and helps you understand your choices.

Again, the main point is: Homeownership is an important way American families move ahead financially, and waiting for the current concerns to fade away can cost you. Don't simply assume that this is a bad time to buy real estate. Go beyond the headlines, and make yours a well-informed decision.