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Think buying real estate's a no brainer? Think again

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Jorge Padillo and fiance Ana Carolina Amaya pose in their Metroplis at Dadeland apartment on Tuesday, May 14, 2013. Although Padillo, a financial planner, said financially it made sense to buy, the couple decided to rent.

When Jorge Padilla's fiancé, Ana Carolina Amaya, moved to Miami in January to be with him, the young couple had to decide — rent or buy? Padilla was already renting an apartment, but the two wanted a place of their own.

Padilla, a certified financial planner with Lubitz Financial Group in Miami, ran the numbers and said financially, it made sense for them to buy. But Amaya is finishing up a master's in human resources from Florida International University and they don't know where she will find a job. Besides, the house they can afford now may not be the house they want to stay in, he said.

The couple decided to rent.

"Renting is right for us at the moment, even though financially, it makes sense for us to buy," Padillo said.

When pondering renting versus buying, sometimes you have to look outside of the spreadsheet to find the right answers.

"You have to ask yourself the right questions. The numbers could tell one story, but your situation could tell you another," Padillo said. "You have to reconcile the two and figure out what makes sense. Look at the numbers. Tally the options, and ask what feels right to you."

Here's the big picture: mortgage interest rates are at record lows. Property prices are at 2003 levels. It's the perfect climate to buy — but can you? Should you?

Brett Horowitz, a certified financial planner with Evensky & Katz in Coral Gables, said it's a good environment for owning — if you can afford it. "There are low interest rates, lower property values, and rentals are high."

But lack of cash for a down payment or a low credit score often kick potential buyers out of the pool, he said.

"People are being forced into renting," Horowitz said. "That's why rental costs are high, because demand is up."

Padillo said an influx of foreign buyers who are paying cash also is a barrier to those who need to borrow to buy. Sellers like cash buyers because there's less hassle and the deal is more likely to close, he said.

Prospective buyers need to know that the real estate market is heating up, but overall, prices are still down, said Lynda Fernandez, spokeswoman for the Miami Association of Realtors. Median single family home prices rose about 25 percent in Miami-Dade and Broward from March 2012 to 2013. Median prices for condos and townhomes rose 19 percent in Miami-Dade and 27 percent in Broward in the same period.

"But the median price for a single family home in Miami-Dade is still 40 percent below the peak in 2008," Fernandez said. "Prices are still at 2003 levels."

Here are some things to consider if you're trying to decide whether to buy or rent:

What works for you?

With a rental, when you're ready to move on, you basically lock the door and leave, Horowitz said. There's no upkeep, and you can buy yourself time if you're not sure you're going to stay in an area, or if you think you'll want to trade up to a bigger place.

Advantages to homeownership include building both equity and a credit score, Horowitz said. Florida also is one of a handful of states that offers homestead protection, which means if you are sued, your home is a protected asset in certain situations, said May Cheung, a certified financial planner with The Enrichment Group in Miami. If you build equity in a home, you can leverage it to borrow to start a business, and you can deduct mortgage interest if you itemize, she said.

What is your

cash cushion?

Add up your fixed expenses, including a prospective mortgage, property taxes, closing costs and insurance.

"It's easy to forget all these other costs, but it's important to make sure you budget for them," Padillo said. "You have to factor them in to make sure you can afford it."

How much cash do you have left? "You always want to keep six months of living expenses in cash, so if you lose your job, you have enough to live on for six months," Horowitz said.

If your income fluctuates, make sure you have the cash reserves to dip into if you have a pay drop.

Determine your savings rate by looking at how much income you are putting away after expenses. Horowitz said it should be five to 10 percent. If you can't put away that much, you need to re-evaluate housing options.

Do you qualify financially?

To buy, lenders want no more than 28 percent of your income going to housing costs, and your debt should be no more than a third of your income, Padillo said.

"You have to look beyond today," he said. "Will your financial picture change — do you have student debt or other obligations? Will you be able to handle the payment in the future?"

If you are a couple, make sure you can cover the mortgage with only one of your salaries, in case one of you loses a job, said Cheung, who is also a Realtor.

In this economic climate, realize that some lenders are skittish and a little finicky, she said. One client, a real estate lawyer who made more than \$250,000 annually, couldn't get a loan because the condo association where she wanted to buy was involved in litigation. "Lenders are looking for reasons not to lend," Cheung said.

Well-to-do clients with healthy assets also are being turned down for loans because they are retired and have no income, Horowitz said. "Lenders are pretty tight," he said.

If you can't afford the 20 percent down payment typically required, there are Federal Housing Administration, or FHA, loans that offer attractive down payments for first-time homeowners, as low as 3.5 percent. But you and the property you buy have to qualify, and you still have to buy Private Mortgage Insurance, called PMI, to protect the lender in case you can't make your payments.

"And a lot of condos don't qualify for FHA loans," Horowitz said.

How long do you plan to stay?

To buy, you should be prepared to stay in a house for three to five years to recoup your up front and closing costs, Padillo said. "It was that fact that didn't make me feel comfortable with the commitment" of buying, he said. "I didn't know where we would end up."

Padillo has a client couple in their early 30s who also are struggling with renting versus buying. The woman, a pharmacist, and the man, a consultant finishing his master's degree, have the potential to double their income in the next year.

"They are asking themselves — 'Is the house we can afford to buy now the one we want to stay in? Or should we wait?'" Padillo said.

It may make sense for them to rent for a year in their desired neighborhood, then re-evaluate, he said.

How's your credit?

Go to www.annualcreditreport.com, where you can get one free credit report a year from each of the three reporting agencies.

"Stagger them, by getting one report every four months, instead of all at the same time," Horowitz said. You can get your credit score for about \$10. Check for errors, and if your

score is not high enough, work on building it up. The site www.creditkarma.com will also give you a rough look at your credit profile and tips to improve it, for free.

Can you find a good interest rate?

"When interest rates are low, it's better to be a borrower than a saver," Horowitz said. "But that will flip, when interest rates rise."

Go for a fixed rate, rather than a variable one.

"You can always refinance to a lower rate later," he said.

Visit www.bankrate.com to compare mortgage rates offered by credit unions and others that might beat the rates of big box banks, Horowitz said.

What's your overall goal?

A home's value will typically rise only about 2 percent a year over inflation, Horowitz said. There are other investments that can do better.

"If you're going to buy, buy it to live in," he said. "Not as an investment, because at times, you may have negative equity." Homeowners who bought during the real estate bubble six or seven years ago have seen property values decline or are underwater, meaning they owe more than the house is now worth.

The bottom line is to figure out what is right for you, Padillo said. Timing is sometimes the most difficult decision.

"Financially the decision is easy. You crunch the numbers and get a concrete answer," he said. "But you have to ask, personally, does it make sense?"

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