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## Buying a home isn't always the best option

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Jorge Padilla and his wife, Ana Amaya, pose for a portrait in their apartment in Miami. They have been renters, but with changes in their lives, now are preparing to buy a home. **Shannon Kaestle** [skaestle@miamiherald.com](mailto:skaestle@miamiherald.com)

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From the time we leave the family nest to live on our own, we are faced with this dilemma: Should I buy or rent my home?

Opinions abound, and even financial experts differ on the matter. The truth is there is simply no “yes” or “no” answer that covers every person. Add the fact that buying a home is one of the most emotional decisions we will ever make, and the decision become even less clear.

Three years ago I contributed to a Miami Herald story about whether to buy or rent and explained why for me and my fiancée, renting made the most sense to us. At the time, Ana was finishing up her master’s degree studies and we weren’t sure where she would find a job.

During this three-year period, we have made monthly payments to a landlord (and not built equity in a home) and we have forgone the estimated 23 percent price appreciation of the average Miami home (as reported by the S&P/Case-Shiller Home Price Indices), but we still feel we made the right decision for us at the time.

Now we're married, and we plan to stay in Miami for the foreseeable future. Interest rates remain low. We're preparing to buy.

In the past three years, I've studied the subject and advised a number of my financial-planning clients in navigating this decision. What I have found is that the key issues can be addressed by answering two broad but critical questions:

- What is your financial picture telling you? (Do the numbers make sense?)
- What decision feels right for you at this time? (Which option will better support your life goals?)

## FINANCES

To determine those answers, here are matters you should consider:

- **Debt-to-income ratio:** Once you add all your debt payments, does your income allow you to afford buying a home and the ongoing payments needed? An important guideline is that your total debt payments should not exceed 40 percent of your income and all housing-related payments should be less than 30 percent of your income. These ratios determine how much house you can afford.

If you were to buy a home, would you exceed these ratios? If so, renting may still be appropriate for you until you have paid off debt or your income increases. You can still qualify for a mortgage if you are near or in retirement; however, expect to work closely with your mortgage company to find the right timing and strategy to avoid having so much wealth tied up in your home that you're strapped for living expenses.

- **Down payment and emergency funds:** Your emergency fund and down payment fund need to be separate pools of money; if you plan to buy a home, you should have both.

For your emergency fund, you need to have money to cover three to six months of expenses. One big reason to have this cushion is because now you will be responsible for any home repair or improvement costs.

Another consideration: Although you can probably qualify for a mortgage with just 5 percent down payment, making a 20 percent down payment can save you from paying private mortgage insurance (PMI) costs and will diminish your mortgage rate. On a \$300,000 home, with a 30-year mortgage at a 4.25 percent fixed rate, the larger down payment of \$60,000 (versus \$15,000) brings a savings of \$54,117 in mortgage insurance and interest over the lifetime of the loan.

- **Credit Score:** Do you have a credit score higher than 700? You can probably qualify for a loan if your credit is below 700, but the higher your credit the more likely lenders will want to give you a loan at lower rates, and the most favorable rates go to those with a credit score of 750 and above.

While you should always monitor your credit score, you should pay close attention at least a year before applying for a mortgage. To help you do this, go to [www.annualcreditreport.com](http://www.annualcreditreport.com) and obtain your free credit report and begin monitoring your credit score with the Credit Karma free online tool ([www.creditkarma.com](http://www.creditkarma.com)).

## PERSONAL CONSIDERATION

Now that you have some good financial guidelines to help you answer whether the numbers make sense, let's look at the personal and emotional issues that can guide you to the right decision:

- **Five-year view:** Where do you see yourself in three to five years? Generally, you should plan to stay in a home for at least four to five years in order to offset the purchasing costs. If you have major life transitions unfolding, it may be wise to wait until the dust settles and rent in the interim. How about your family goals?

Do you have a financially secure job in the area of town you love? Remaining mobile and flexible to relocate could open doors to rewarding career opportunities.

- **Other goals:** How will your home purchase affect your pursuit of your other financial goals? If your primary goal is to travel the world before you settle down, you may want to rent for now.

- **Lifestyle:** Is your lifestyle better suited to renting or owning?

While home ownership is part of the “American Dream,” does the reality reflect how you want to live? Do you enjoy being the “super” of the home, ready to fix, maintain, and pay for maintenance and repairs? Do the envisioned rewards of homeownership overpower the headaches of it?

If you're nearing retirement — or already there — will owning your home be a source of comfort, or will it present more hassles and expense than you want to deal with? Depending on the monthly costs of maintenance versus the cost of renting, leasing an apartment or accessible townhome may be a better choice. Here again, emotional considerations can be key.

It takes courage to challenge the mainstream beliefs of homeownership, but if buying your home doesn't bring you joy every day you live in it, maybe you should reconsider those plans.

## OTHER CONSIDERATIONS

Homeownership involves other financial benefits that should be part of your thinking.

- **Tax Savings:** Home mortgage interest and property taxes are deductible if you itemize deductions in your tax return. It's important to do the math: Tax savings probably will not be enough to offset increased monthly costs of your mortgage and maintenance.

▪ **Home as an investment:** Despite Miami's famous booms and busts, many studies show the true long-term price appreciation of real estate is about 2.5 percent to 3 percent — about the rate of inflation. You should not purchase your home expecting it to be a good investment vehicle. While it is true that real estate can be a great way to build wealth, when it comes to owning your own home, many dynamics and financial factors are at play.

Buying a home is as much an emotional decision as it is a financial one. Evaluate your full financial picture or work with a Certified Financial Planner professional to help you navigate your own numbers to determine what makes sense to you. Do this before you begin exploring homes for sale. Otherwise, you may find yourself in love with a home you can't truly afford.

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