

SHOULD YOU PURCHASE A HOME?

The 2008 financial crisis demonstrated how risky home ownership can be. Thousands lost jobs or received pay cuts, suddenly finding themselves unable to make mortgage payments. The value of homes plummeted, often below the amount they borrowed to purchase the home in the first place. Banks collapsed as many were unable to pay, forcing foreclosure, but leaving the banks with homes they couldn't sell for more than what they had loaned.

If you're considering a home purchase, I caution three things:

1. Be aware of how secure your employment is and how likely you are to have to move within a short timeframe. If you have a job that may necessitate the sale of your home in a short amount of time and your employer offers no assistance with such home sales, you might want to think twice.
2. Be aware of the market conditions for homes in the area you are considering. In many locales, homes are simply hard to sell. Rural areas in the Midwest, including my own state of Missouri, don't have a large enough population to sustain home sales. On the other hand, suburban and urban areas may be too expensive for most buyers.
3. Be aware of how much the home is actually costing. At one time, financial advisors gave universal approval to home ownership. It's still the American dream for many. Advisors reasoned that the deductibility of home mortgage interest and the almost universal rise in prices justified everyone buying. The truth is, home ownership means that the buyer incurs all costs of the home, including but not limited to the financing for ownership, the insurance, property taxes and the maintenance. Anyone buying must be aware of how much they will actually spend on a home. My experience suggests that few homes have a value that rises faster than actual costs. At best, home owners break even upon a sale. At the same time, I won't deny other benefits to owning a home: freedom to pick paint colors, building equity or value and the sense of permanence in that place.